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*Hon. Mr. Fagun*

# ROYAL COMMISSION

ON

# TRANSPORTATION

## HEARINGS

HELD AT

Port Arthur

VOLUME No.:

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Port Arthur, Ontario  
Saturday,  
May 28th, 1960.

--- On commencing at 9:00 a.m.

THE CHAIRMAN: Order, please. Will the  
Secretary please read the Order in Council.

THE SECRETARY: The Committee of the Privy  
Council have had before them a report from The Right  
Honourable John G. Diefenbaker, the Prime Minister,  
stating that it is in the national interest that a com-  
prehensive and careful inquiry be made with all reason-  
able despatch into problems relating to railway trans-  
portion in Canada and the possibility of removing or  
alleviating inequities in the freight rates structure.

The Committee, therefore, on the recommen-  
dation of the Prime Minister, advise that

Herbert Anscomb, Victoria

Archibald H. Balch, Ottawa

Rene Gobeil, Quebec

M. A. MacPherson, Sr., Regina

Howard Mann, Moncton

Honourable Charles P. McTague, Toronto

Arnold Platt, Lethbridge

be appointed Commissioners under Part I of The Inquiries  
Act to inquire into and report upon the problems relating  
to railway transportation in Canada and the causes there-  
of, and to recommend solutions thereto, and in particular  
without restricting the generality of the foregoing, the  
Commission shall consider and report upon:

- (a) inequities in the freight rate structure,  
their incidence upon the various regions of







Canada and the legislative and other changes that can and should be made, in furtherance of national economic policy, to remove or alleviate such inequities;

(b) the obligations and limitations imposed upon railways by law for reasons of public policy, and what can and should be done to ensure a more equitable distribution of any burden which may be found to result therefrom;

(c) the possibilities of achieving more economical and efficient railway transportation;

(d) whether, and to what extent, the Railway Act should specify what assets and earnings of railway companies in businesses and investments other than railways should be taken into account in establishing freight rates; and

(e) such other related matters as the Commissioners consider pertinent or relevant to the specific or general scope of the inquiry.

The Committee further advise:

1. That the scope of this Commission shall not extend to the performance of functions which under the Railway Act are within the exclusive jurisdiction of the Board of Transport Commissioners;
2. That the Commissioners be authorized to exercise all the powers conferred upon them by







1 section 11 of the Inquiries Act, and be  
2 assisted to the fullest extent by government  
3 departments and agencies;

4 3. That the Commissioners adopt such procedure  
5 and methods as they may from time to time deem  
6 expedient for the proper conduct of the inquiry  
7 and sit at such times and at such places in  
8 Canada as they may decide from time to time;

9 4. That the Commissioners be authorized to engage  
10 the services of such counsel, staff and  
11 technical advisers as they may require at rates  
12 of remuneration and reimbursement approved by  
13 the Treasury Board;

14 5. That the Commissioners report to the Governor  
15 in Council with all reasonable despatch; and

16 6. That the Honourable Charles P. McTague be  
17 Chairman of the Commission.

18 R. B. Bryce,

19 Clerk of the Privy Council.

20 I also read, sir, from Privy  
21 Council Order 195-1628, dated the 22nd of December 1959.

22 The Committee of the Privy Council  
23 have had before them a report from the Prime  
24 Minister submitting that the Honourable Charles  
25 P. McTague has, by reason of ill health,  
26 asked to be relieved of the responsibilities  
27 placed on him as member and chairman of the  
28 Royal Commission on Transportation to which he  
29 was appointed by Order in Council P.C. 1959-577  
30







1  
2 of 13th day, 1959.

3 The Committee accordingly advise that  
4 Mr. McTague's resignation as a member and  
5 chairman of the said Commission be accepted  
6 and that Murdoch Alexander MacPherson, Esquire,  
7 Q.C., a member of the Commission, be chairman  
8 thereof.

9 R. B. Bryce,

10 Clerk of the Privy Council.

11 THE CHAIRMAN: We are very glad to be in  
12 Port Arthur. We received a very strenuous request to  
13 come here which we could not at first accept because we  
14 had ruled that we would only go to the capital city of  
15 each province. There have been, following the  
16 appointment of this Commission, so many requests that  
17 we had to make that ruling. However, it varied in the  
18 Province of British Columbia, because the government of  
19 that province requested us to go to Vancouver, and the  
20 government of Ontario very strongly requested us to come  
21 to Port Arthur, and that is why we are here. We are  
22 glad to be here today. My knowledge of Port Arthur  
23 goes back a great many years. I was mentioning this  
24 morning while reminiscing that the first occasion on which  
25 I was here, which will be familiar perhaps to some of  
26 the old-timers who are here, was at a convention of  
27 the Legion, and on that occasion the Human Fly climbed  
28 what was then known as the Whalen Building. I was  
29 very young in those days. I didn't come here in 1921  
30 by plane as I did last night, and in the interval,





1  
2 there has been a great change in transportation. We  
3 arrived last night at Fort William, which is jointly  
4 interested with Port Arthur in this appearance, and we  
5 arrived by plane. Since the days that I referred to,  
6 we have had road transport; we have had airplanes; we  
7 have pipe-lines; we have seaways, and right across the  
8 country there is an insistant demand that we must have  
9 efficient railways.

10 Now, ladies and gentlemen, we are just six  
11 ordinary men. We have a great pride in Canada and a  
12 great love of Canada, and we will do our best to deal  
13 with all the problems that come before us, but we feel  
14 that the transportation world is a joint affair, and that  
15 sometimes we just do not appreciate the fact that we live  
16 here in Canada.

17 We would now hear the representations, and,  
18 Mr. Wardrope, will you go first, please.

19 MR. WARDROPE: Mr. Chairman, honourable  
20 gentlemen of the Royal Commission on Transportation,  
21 ladies and gentlemen; in the Chairman's opening remarks  
22 I can vouch for the fact that he is an old friend of the  
23 Lakehead and certainly a well known visitor to these  
24 parts. He mentioned years ago the Human Fly episode on  
25 the Whalen Building, and I might say that personally he  
26 has emulated the Human Fly in the facility with which he  
27 seemed to be able to climb the pinnacle of success in  
28 various fields in this Dominion: as an outstanding  
29 legislator; as an outstanding legal counsel, and in many  
30 other ways your Chairman today, ladies and gentlemen, is







1  
2 an outstanding citizen of Canada and a great friend of  
3 this part of the country. For years he was legal  
4 counsel of the Saskatchewan wheat pool and was a regular  
5 visitor here year after year. So, we welcome you, sir,  
6 as an old friend of the Lakehead, in addition to the  
7 position you are now holding, and also the members of  
8 your Commission. We are glad to see you here and we  
9 hope your stay is very happy while you are in our city.

10 You mentioned the Premier of Ontario, and I  
11 know he is intensely interested in the work you are  
12 doing and in the presentations which will be made to you  
13 today, as evidence of which he asked me to come up and  
14 represent him, and also sent here to review proceedings  
15 and to hold a waiting brief his Deputy-Minister of the  
16 Department of Economics, Mr. Gathercole, and also  
17 Professor MacDougall, who is the architect, with Mr.  
18 Gathercole, of the Ontario submission, which is ample  
19 evidence of his great interest in your Commission's  
20 efforts and the assurance of his help at all times. He  
21 also sent me a telegram yesterday, if you will permit  
22 me to read it. It says:

23 "I extend warmest support to the Northwestern  
24 Ontario Development Association on its  
25 representation Saturday to the Royal Commission  
26 on Transportation. The viewpoints and  
27 interests of the people and industries of  
28 Northwestern Ontario as contained in the  
29 Association's submission deserve the most  
30 careful and painstaking consideration. I







1  
2 wish the Association and the people every  
3 success in their efforts to further the  
4 economic development of this important region  
5 of our province.

6 (signed) Leslie M. Frost,  
7 Prime Minister of  
8 Ontario."

9 I wish to give you that message, sir, and  
10 the people here as well and to assure you of his interest  
11 in your work and his interest in this part of Northwestern  
12 Ontario and the whole of this province.





1 Mr. Chairman and members of the Commission:

2 It is a very great pleasure for us to welcome  
3 The Royal Commission on Transportation to the Lakehead.  
4 The subject of your enquiry is one of great importance  
5 to the Lakehead, Ontario and the whole of Canada. The  
6 spanning of this Province and Nation by railways was  
7 fundamental to the creation of Canada and continues to be  
8 essential to its economic development. Despite the  
9 growth of water transport, the emergence of huge inter-  
10 locking motor vehicle transportation systems, the  
11 development of air travel and the more recent advent of  
12 big-inch pipe lines, the railways still constitute a  
13 vital part of our country's economic fabric, especially  
14 is this so in North-Western Ontario.

15 Although railways can no longer bend the  
16 economy of the country to suit their operating convenience,  
17 certain areas are still very dependent on them in  
18 specific instances, due to lower density of roads and  
19 more rigorous climatic conditions. Although the railway's  
20 near-monopolistic domination of the economy at large no  
21 longer exists, they are, in these areas, the only  
22 practical means of transportation and can exercise the  
23 power of life or death over resource or business  
24 development and expansion.

25 We feel that North-Western Ontario is vitally  
26 concerned with the need for a modern, efficient railway  
27 system and we welcome with pleasure the appointment of  
28 your Commission and will do our best to cooperate with  
29 you in your studies and deliberations.  
30







1  
2 We live in a dynamic economy which is  
3 capable of conferring great benefits upon those who  
4 adapt themselves to its needs. It breaks or destroys  
5 those who fail to conform. In speaking out for a re-  
6 examination of railway policies and practices, we feel  
7 we are speaking in the interests of Canada as well as our  
8 Lakehead District.

9 We hope that from your deliberations will come  
10 recommendations that will assure for the Lakehead,  
11 Ontario and Canada modern and efficient railways possessing  
12 the capacity of adaptability to change and providing  
13 services consistent with the optimum development of our  
14 area and Canada as a nation, at rates that are equitable  
15 and fair to all regions in Canada and realistic in  
16 relation to the cost of providing service.

17 We believe this course to be the best for the  
18 Lakehead, Ontario and best for Canada in the long run.  
19 The Lakehead forms a large part of this nation and has  
20 potential and resources which can make it a vital factor  
21 in the growth of our nation. The province's forest re-  
22 sources inventory reveals that North-Western Ontario  
23 productive forest land extends to more than 33 million  
24 acres, with total wood reserves exceeding 50 billion  
25 cubic feet. Present output from sawmills includes more  
26 than 70 million board feet of lumber annually, besides  
27 more than  $\frac{1}{2}$  million railway ties and other wood products.

28 North-Western Ontario, underlain for the  
29 greater part by mineral rich formations, is the  
30 Province's second most important mineral producing region







1  
2 and its potential is far greater. It has been forecast  
3 by Dr. M. W. Bartley, one of our outstanding geologists  
4 in this area, that this region can produce 45 million  
5 tons of iron ore a year within the next twenty-five years,  
6 given adequate government support and equitable freight  
7 rates. Such development would represent, at today's  
8 prices, 500 million dollars in new wealth a year and  
9 would quadruple the total tonnage of bulk and other  
10 cargoes currently handled through the Lakehead. The  
11 Nakina ore deposits have been estimated to contain some  
12 500 million tons of iron ore and those developments are  
13 well underway. Plans for the construction of pig iron  
14 and beneficiating plants are in preparation. Efforts to  
15 improve production methods and lower costs are being  
16 continued. Among the more notable technological develop-  
17 ments have been the implementation of new oxygen and  
18 hydrogen processes in steel production and the growing use  
19 of electric smelting furnaces for the manufacture of  
20 special steels. A more intensive preparation of ore  
21 before smelting has increased efficiencies and capacities  
22 of existing blast furnaces. New processes in the  
23 upgrading and agglomerating of ores have also widened the  
24 scope for the use of low-grade ores.

25 A substantial expansion in the mining of iron  
26 ore in North-Western Ontario is foreshadowed as a result  
27 of methods producing iron pellets and briquettes from  
28 lower grade ores. Horizons have been widened by the  
29 new demand for concentrated ores and the new techniques by  
30 which lower grade and contaminated ores from deposits







1  
2 which were previously considered sub-marginal can be  
3 processed now profitably. Other important minerals -  
4 gold, copper, zinc, silver, lead and iron make this  
5 area a potential source of mineral wealth in the Canadian  
6 economy.

-7 Not only are the natural resources available  
8 in this region, but with the construction of the St.  
9 Lawrence deep waterway they are available for development  
10 for export markets the world over. Port Arthur and its  
11 twin community Fort William form the third largest port  
12 in Canada, being capable of handling many thousands of  
13 cargoes annually and exceeding its present total of 14  
14 million tons of grain, petroleum, iron ore, newsprint,  
15 et cetera. With almost 40 miles of developed and  
16 protected waterfront and presently over a quarter of a  
17 million square feet of storage space, no difficulties  
18 can be envisaged in the handling of such water-borne  
19 cargoes as will ensue from the development of the  
20 region's resources.

21 Development of resources in this modern age must  
22 inevitably be accompanied by development of communities  
23 and secondary industries. North-Western Ontario already  
24 shows a pattern of progress in this respect. A pattern  
25 which in itself shows a basis for further expansion  
26 capable of keeping pace with the development of primary  
27 resources. Industrial production already embraces  
28 chemicals, aircraft components, construction materials,  
29 machinery and many products of the wood and paper  
30 industries. Pulp and paper mills at the Canadian Lakehead







1  
2 make it one of the world's largest producing centres  
3 of newsprint, fine and kraft papers.

4 In all respects, Mr. Chairman, the region of  
5 North-Western Ontario is capable of development to play  
6 a vital part in the life and economy of our nation. All  
7 agencies, business, government, industry and people  
8 are ready to further this development and it is hoped  
9 that your Commission will ensure that the railways are  
10 fitted to play their vital part; for a vital part it  
11 surely is. The part the railway must, of necessity,  
12 play embraces not simply the moving of primary products  
13 at equitable rates, important though this aspect is,  
14 but also the whole coverage of community needs and  
15 products. The need of primary industries to be supple-  
16 mented by communities and secondary industries is  
17 basic in this present age. Communities need to be  
18 accommodated and supplied at economic rates, flourishing  
19 secondary industries need to obtain supplies and transport  
20 their manufactured products at equitable freight rates.  
21 And so, it is equally important for all these aspects of  
22 progress and development to receive your careful con-  
23 sideration.

24 With particular reference to North-Western  
25 Ontario and railway freight rates, we would make the  
26 following observations. Where statutory limits do not  
27 apply to railway rates, it is an evitable temptation to  
28 increase rates, especially so where competition is less  
29 keen. Prolongation of this tendency can create injustice  
30 and be a grave impediment to growth, especially so when







1  
2 when the nature of the production and geographic location  
3 make reliance on rail transport essential. Among the  
4 factors which influence economic activity and emphasize  
5 the importance of railway rates in this part of the  
6 Province are the following:

- 7 (1) The products of the extractive industries are  
8 usually comparatively low in value, so that  
9 freight charges constitute a larger component  
10 of their delivered cost than for many products  
11 of the secondary manufacturing industry.
- 12 (2) The remoteness of this area tends to magnify  
13 freight costs in absolute terms.
- 14 (3) A lower density of roads and more rigorous  
15 climatic conditions make this area more  
16 dependent on rail transportation.
- 17 (4) The fact that a large percentage of the output  
18 originating in this area is exported, makes it  
19 imperative for its primary industries to be  
20 able to compete in world markets.
- 21 (5) High transportation costs tend to inhibit the  
22 development of the potential embodied in the  
23 area's vast natural resources.

24 Mr. Chairman, a policy which penalized progress  
25 and which seeks by overcharging on the movement of goods  
26 on some lines to compensate for loss on others will in  
27 the end prove self-defeating. Such a policy is  
28 economically unsound and fails to make the most of our  
29 opportunities.

30 The inevitable practice of the railways in





1 endeavouring to recoup themselves in such areas where  
2 they have freedom of action, even if it be by rates in  
3 that area which either retard or prevent development of  
4 new traffic, can be very detrimental not only to this  
5 area's development, but harmful to the nation's  
6 economy and in fact harmful to the railway's long term  
7 interests.

8 Certainly, sir, we feel that the difference in  
9 economic structure between Southern, South-Western,  
10 Northern, North-Western and Eastern Ontario require an  
11 assessment of their respective transportation needs and  
12 costs in keeping with their special requirements. So far,  
13 Mr. Chairman, we feel that the railway rates, aggravated  
14 by horizontal increases, have been and can be a serious  
15 impediment to the effective development of our resources.  
16 We earnestly recommend the removal of these anomalies.  
17 Submissions are being made to you today by representatives  
18 from the Lakehead and North-Western Ontario. I am  
19 confident, Mr. Chairman, that they will receive the  
20 same careful consideration that you would extend to us in  
21 making this submission to you on behalf of North-Western  
22 Ontario and the Province as a whole.

23 This is, I believe, the first submission ever  
24 made by North-Western Ontario on railway transportation.  
25 It is of a very general nature and does not attempt to  
26 deal with specifics. It does, however, endeavour to  
27 set forth certain basic observations and principles.

28 Now, Mr. Chairman, I wish to say again how  
29 pleased we are that you have come to the Lakehead area  
30 and North-Western Ontario. We want to learn to know all







1  
2 you gentlemen better; we want to learn to love you and  
3 we want you to love us and this great part of North-  
4 Western Ontario, and on behalf of the people of North-  
5 Western Ontario, I extend the most cordial welcome  
6 to our area and wish you every success in your  
7 very exacting and difficult endeavour to resolve these  
8 important problems of transportation.

9 Now, sir, it is a pleasure for me to make  
10 this presentation to you and to meet again with you  
11 personally and to have the opportunity of a visit with  
12 you and speaking to you, and I thank you most sincerely  
13 on my own behalf for your kind attention.

14 MR. CHAIRMAN: Thank you, Mr. Wardrope. What  
15 you have said just endorses what was said by the Prime  
16 Minister in Toronto when we were there, and I remember  
17 very well how specifically he referred to this part of  
18 Ontario. Thank you very much.

19 MR. WARDROPE: Thank you, sir.

20 THE CHAIRMAN: Mr. Sinclair?

21 MR. SINCLAIR: I would think there might be  
22 one or two questions I might ask to take advantage of  
23 having Mr. Wardrope here to assist the Commission.

24 THE CHAIRMAN: Well, as long as they are not  
25 too many, Mr. Sinclair; we have quite a lot of work  
26 to do.

27 MR. SINCLAIR: Yes, I quite understand that.  
28 Mr. Wardrope has made it clear that he is dealing only  
29 with matters of principle, he is not dealing with  
30 specifics.







1 CROSS-EXAMINATION BY MR. SINCLAIR:

2 Q. Speaking on behalf of Canadian Pacific,  
3 Mr. Wardrope, which I represent, I do say we are  
4 interested in the remarks of the government of the  
5 Province of Ontario and particularly in regard to the  
6 principle which they believe should govern railway  
7 transportation in this country, and you raised consid-  
8 erable emphasis on the second paragraph on Page 2 of  
9 your submission. Do you have that before you?

10 A. Yes.

11 Q. I take it, Mr. Wardrope, that what you  
12 mean by that paragraph - and I would like to know if you  
13 would agree with me - is that the railways should be  
14 free to change and alter rates as costs of transportation  
15 require from time to time.

16 A. I feel, Mr. Sinclair, that railways have  
17 got to be like anybody else, they have got to make a  
18 profit if they can. I think that that is only fair,  
19 and that would conform to what you are saying about  
20 changing your rates. I am speaking of the larger field  
21 whereby areas like our own, in order to develop to their  
22 potential, must be able to compete. I should not  
23 express to any great extent my own personal opinion, but  
24 I think that in some way as the railways loose money it  
25 has got to be made up someplace else; whether it is the  
26 whole of Canada, I don't know. But this area needs  
27 some special consideration for the next few years,  
28 because after a few years have gone by and we have  
29 developed to our potential, we might be able to help,  
30 in our turn, some less fortunate area.





Y/md

1 Q. One other point: I would take it that  
2 the government of Ontario, and you specifically, speaking  
3 on behalf of this section, would say that all segments of  
4 the freight rates structure should have just and reasonable  
5 rates, and that would be just and reasonable to shippers  
6 and to railways alike?

7 A. Anything else would be foolhardy, Mr.  
8 Sinclair.

9 Q. And if there is, for reasons of economic  
10 necessity, some areas or some group shipping a specific  
11 commodity that requires assistance, and that assistance  
12 can only be given through transportation costs, and this  
13 is in the national interest, your government would support  
14 that kind of aid?

15 A. I have no authority to make that statement  
16 for the government, sir, but I feel that is something  
17 you should bring very strongly to their attention.

18 Q. To this Commission's attention?

19 A. Yes.

20 Q. We certainly will do that.

21 THE CHAIRMAN: He has done it before and will  
22 do it again. Thank you very much Mr. Wardrope.

23 MR. WARDROPE: Thank you, sir.  
24  
25  
26  
27  
28  
29  
30







1 THE CHAIRMAN: His Worship the Mayor.

2 Statement by

3 Mayor Norman R. Wilson,

4 of

5 Port Arthur, Ontario .

6 to

7 Royal Commission on Transportation.

8  
9 Mr. Chairman and Commissioners, may I extend  
10 to you on behalf of the citizens of Port Arthur a sincere  
11 welcome to the Lakehead Ports of Port Arthur and Fort  
12 William. This is the first occasion, to my knowledge,  
13 on which a Royal Commission on Transportation has visited  
14 Northwestern Ontario, and I suggest that your presence  
15 here testifies to the fact that this area has transportation  
16 problems that are not to be found in any other economic  
17 region of Canada. You will have presented to you in  
18 your hearings today detailed submissions on the  
19 transportation problems affecting the economic development  
20 of this area. It is not my purpose to preview the sub-  
21 missions, but I feel that I would be remiss in my duty  
22 as Mayor of Port Arthur if I failed to outline very  
23 briefly the concern of our citizens with regard to the  
24 continuing development of Port Arthur and the Lakehead  
25 as the major ports for Western Canada.

26 We have developed historically as the natural  
27 terminus for goods to and from the Prairie Region of  
28 Canada and a brief reference to the tonnage handled  
29 through these ports, in comparison with other Canadian  
30 ports, will best illustrate this role.







1  
2 (See Schedule "A" - Summary of Traffic handled  
3 at Canadian Lakehead Ports.)

4 What I would like to emphasize is that the total  
5 tonnage coming through the Lakehead ports was in excess  
6 of 11 million tons.

7 From the standpoint of tonnage for export these  
8 ports rank with the very busiest in the Dominion. Latest  
9 available figures show that the ports of Port Arthur and  
10 Fort William handled in excess of 11 million tons of  
11 cargo during the past year.

12 A comparison of tonnage is indicated by these  
13 figures, Montreal, 17,749,708 tons, Toronto, 4,406,425,  
14 Vancouver, 11,611,938 tons.

15 MR. MAURO: Mr. Chairman, I would ask that  
16 Schedule "B" of the submission be taken into the record  
17 and on the schedule, under the groupings "Loaded" and  
18 "Unloaded", that the headings should be "Coast",  
19 "International" and "Total"; in other words, you may  
20 strike out the word "Load" and also the word "Unload"  
21 under the general headings of "Loaded" and "Unloaded".

22 MR. WILSON: Mr. Chairman, I would like to  
23 to recognize that the Lakehead ports rank third in  
24 tonnage handled and far exceed all other Ontario ports,  
25 and almost double the tonnage handled in the port of  
26 Halifax.

27 Of this tonnage at least 90 per cent of all  
28 the package freight and general cargo handled through  
29 these ports and all of the grain is on behalf of the  
30 Western Canadian provinces. We might further illustrate





1  
2 this by reference to the statement of the Honourable  
3 Gurney Evans, Minister of Industry and Commerce for the  
4 Province of Manitoba when he appeared before this  
5 Commission in Winnipeg.

6 "In this connection, we attach special  
7 importance to the work now underway for im-  
8 provement of terminal facilities and the harbour  
9 at the Lakehead harbour of Port Arthur and  
10 Fort William. Removal of the present  
11 deficiencies will enable the Lakehead to serve  
12 as the major lake port for the Prairie Provinces  
13 and will assure maximum benefits of the Seaway  
14 to the Prairie Region."

15 (Daily transcript, Volume 32, page 4976.)

16 I make these references to point out the fact  
17 that our desire to have you sit here in the Lakehead and  
18 to consider our problems was from no parochial aspect but  
19 because we, in the City of Port Arthur, sincerely feel  
20 that we have an important function to perform in the  
21 economic development of Canada. Now that we have  
22 commenced the construction of the terminal facilities for  
23 the St. Lawrence Seaway, we believe that we will be even  
24 better equipped to perform our proper function in develop-  
25 ment of the Canadian West. But the provision of  
26 facilities alone is not enough to foster this necessary  
27 development. Facilities must be coupled with a dynamic  
28 policy to encourage their utilization. This is particu-  
29 larly important in cases where Canadian ports are in  
30 direct competition with adjacent American ports. Due to







1  
2 the regional nature of American railroads they seem more  
3 inclined to grant rates to and from ports in their areas  
4 in order to maintain and attract traffic. Our Canadian  
5 railways are excessively preoccupied in maintaining long  
6 haul type of traffic with the result that the relatively  
7 short haul from Port Arthur and Fort William into Western  
8 Canada has been neglected. The lack of incentive rates  
9 or rates that might attract additional traffic to these  
10 ports as opposed to American ports in the same general  
11 area has had a noticeable adverse effect on the economic  
12 development of the port area. Not only has there been  
13 a failure to adjust the freight rate structure to reflect  
14 the new and changing requirements of traffic movement in  
15 Canada; on the contrary it is our submission that in fact  
16 present rate policy prevents realization of the full  
17 potential of the Lakehead Ports. To illustrate this  
18 point I would refer to rates from overseas via Montreal  
19 to Winnipeg as opposed to rates from overseas via Fort  
20 William to Winnipeg. Examples of these are shown on  
21 Schedules "C" and "D" attached.

22 From the viewpoint of national policy I would  
23 like to point out that there can be very little doubt  
24 that the existence and development of the Lakehead Ports  
25 is in complete conformance with long established national  
26 policy. Historically these ports in fact have been  
27 developed and utilized as the ports for the Western  
28 Prairie Region. More recently with the commencement of  
29 construction of the St. Lawrence Seaway terminals in port  
30 Arthur, we have further evidence of national policy in





1  
2 the development of these ports. The Federal Government  
3 has established the Lakehead Harbour Commission to  
4 administer the port facilities of this region. We suggest,  
5 therefore, that it is within your terms of reference to  
6 consider the position of these ports in the furtherance  
7 of national economic policy.

8 We in the Lakehead fully realize that the  
9 achievement of these objectives require initiative by and  
10 co-operation between all levels of government - Federal,  
11 Provincial and Municipal. To this end, the Lakehead  
12 Cities, in conjunction with the Provinces of Manitoba  
13 and Saskatchewan and Alberta in January, 1959, created  
14 an Association known as The Canadian Lakehead Port  
15 Association. This is a completely voluntary association  
16 comprised of representatives of those areas which feel  
17 that the Canadian Lakehead is the port for the three  
18 Prairie Provinces. It is our hope that through this co-  
19 operative effort by the various interested parties we can  
20 play our proper role in the development of our facilities  
21 for the betterment of the entire economic region.

22 These efforts will prove futile without the  
23 fullest support of all modes of transportation. When  
24 we recall that 11.2 million tons were handled through  
25 these ports in 1958, the land portion almost exclusively  
26 by rail, the importance of rail rates becomes readily  
27 apparent.

28 Water rates play an equally important role in  
29 the development pattern of this area. We therefore submit  
30 that your Commission give consideration to revision of the







1  
2 present policy of The Board of Transport Commissioners in  
3 permitting the lake carriers to raise their rates auto-  
4 matically to maintain a fixed differential below rail  
5 rates. It is our firm conviction that such a policy tends  
6 to minimize our geographic advantages and also denies to  
7 Prairie shippers the inherent economies of water trans-  
8 portation. We support fully the submission of the  
9 Province of Manitoba on this matter and I would refer you  
10 to the recommendations of the Province of Manitoba.

11 (Daily Transcript, Volume 29, pages 4237-38)

12 "Firstly: An amendment to the relevant  
13 legislation which would require the water  
14 carriers to apply to the Board of Transport  
15 Commissioners and show cause for any proposed  
16 increase in water rates and that in such appli-  
17 cation the rates be established on the financial  
18 requirements of the water carriers without  
19 reference to rail rates.

20 Secondly: That the through rate on a shipment  
21 carried by more than one type of carrier should  
22 reflect the relative rate characteristics of  
23 each type of carrier to the extent that each has  
24 participated in that movement."  
25

26 We further agree with the Province of Manitoba  
27 that if such amendments to the present legislation are made  
28 they will have the effect of facilitating the implementation  
29 of national economic policy for the development of this  
30 region and will establish the natural geographical





1  
2 advantages of the Area.

3 In conclusion, Mr. Chairman, I want to re-  
4 iterate the sincere gratitude of the citizens of Port  
5 Arthur for your having come to our City to hear and to  
6 see our problems first hand. We are fully aware of the  
7 magnitude of the problems which you face. You have  
8 listened to the problems of people from one coast to the  
9 other in this great country and we realize how difficult  
10 a task it must be for you to analyse, assess, and  
11 recommend policies which would tend to alleviate the  
12 burdens which you find to exist and also to recommend  
13 policies which will support and expand long-established  
14 national economic policy for the development of Canada.

15 THE CHAIRMAN: Thank you, Mr. Wilson. I  
16 think, Mr. Wilson, that the great array of counsel will  
17 indicate to you and the people of your City that in  
18 coming here we were not trifling, and very rarely will  
19 you find as many counsel together in Port Arthur as we  
20 have here today and, while they are very inquisitive  
21 at times, they are really constructive -- even our friend  
22 Mr. Sinclair, at times.

23 Is there any cross-examination, Mr. Sinclair?

24 MR. SINCLAIR: No, sir.

25 THE CHAIRMAN: Thank you Mr. Wilson.

26 MR. WILSON: Thank you, sir.

27 --- SHORT RECESS  
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THE CHAIRMAN: We will now hear from Mr.  
Fisher.

SUBMISSION BY

D. M. FISHER, M. P.

MR. FISHER: The appearance of a member of parliament before royal commissions of the federal authority is rare enough to be explained. The constituency of Port Arthur and the region of Northwestern Ontario of which it is a large part, is unique in that its original raison d'etre in organized human activity was as a transportation corridor or bridge. Not only is transportation, especially rail transportation, still a major factor in our regional economy, it is apparent to me that it causes more concern and discussion than any other aspect of our economic life. On the CNR north line, the constituency begins at Ghost River and continues through three divisional points, Armstrong, Nakina and Hornepayne. On the CPR, the constituency runs from Port Arthur to White River. Then there is the CNR branch from Long Lac to Port Arthur and the CNR eastward from Nakina towards Hearst. A federal member of parliament with six divisional points and all this line must put railway problems at the top of his list.

2. In every study, in hearings or reports on railway problems in Canada, our region has been a factor. But not in any analytical way which considered our regional economy and its future. Our inhospitable terrain, sprawled for too many miles, caused inordinate capital costs in railway building and continues high maintenance costs (recognized by the 'bridge' subsidy). The long





1  
2 haul it forces in East-West traffic movement must be the  
3 strongest factor in Canadian railway costs. The quiet  
4 reality beneath most of the rivalry between Western in-  
5 terests and the major railways, so articulately  
6 symoblized at your hearings so far in the confronting and  
7 tangential bouts between Mr. Sinclair and Mr. Frawley  
8 I might add then, Mr. Mauro, is the distance, the high  
9 costs, the low productivity of Northwestern Ontario. If  
10 we generate much more rail traffic here, internally, to  
11 the Lake ships, out to the East or West, we would be  
12 much closer to a solution of national railway problems  
13 than we will ever get from the cutting of the Gordian  
14 knot of the Crows Nest Pass rates impasse.

15 3. I would hope your considerations and findings  
16 will be imaginative. If they are, you will have more  
17 positive recommendations on Northwestern Ontario than a  
18 bridge subsidy. You will recommend steps to spawn our  
19 development. The raw materials for such growth are set  
20 out well in the brief you have from the Northwestern  
21 Ontario Development Association. Railways are instruments  
22 of national policy, or so I believe. I contend that a  
23 positive national policy would take into account our  
24 potential and foster it boldly. Whether the statutory  
25 grain rates are remunerative or not, the railways will  
26 continue to haul grain, much of it through Northwestern  
27 Ontario. The basic dialectic through out the problems  
28 you have been considering, centers on the statutory grain  
29 rates. This may put the CPR versus the West contest so  
30 much in the minds of you, of the politicians, and of







1  
2 the publics that more fundamental issues are passed over.

3 4. The fundamental issues are surely these:

4 (a) Are we to throw open competition in Canadian  
5 transportation (restricting the role of the  
6 Board of Transport Commissioners) or move  
7 towards nationalized transportation, initially  
8 through nationalizing the railroads?

9 (b) Are we to put the emphasis on railways as  
10 instruments of national policy? If so, where  
11 do we let them go vis-a-vis trucking, and  
12 water shipping? Should we detach them from  
13 these fields and any other enterprises they may  
14 now control? Is passenger traffic on the  
15 railways any longer a matter of national interest  
16 or policy?

17 (c) Are freight rates to be based on a value of  
18 service principle in the main, supported  
19 (or debauched) by competitive rates, agreed  
20 charges, subventions, subsidies, or more in-  
21 direct supports for lower rates on certain  
22 traffic; or are they to be based on the cost  
23 of service principle? If the latter, how  
24 can the costs be determined in a way that  
25 seems just to all parties in transportation?

26 (d) Does an attempt at further equalization of  
27 freight rates make sense within the present  
28 general framework of the rate structure?

29 (e) Can we get a better pattern of control for  
30 rail transportation to enable railroaders to





1  
2 solve the wage dilemma?

3 (f) Should the rail-water differentials be allowed  
4 to find their levels in a free way?

5 (g) Is any formula - even a rough one - devisable  
6 to cue governments on their capital spending  
7 on highways, pipe-lines, canals, airport  
8 terminals and runways, elevators, warehouses,  
9 wharfs, and ancillary transport services  
10 (e.g. meteorology, radar)? (In the pathos  
11 of a "free enterprise" milieu we can forget  
12 these are all subsidies of a kind from the  
13 citizens to transportation enterprises).

14 5. Each of these issues has many facets. I can-  
15 not argue with the authority of either experience or  
16 research on any of them. But I do feel strongly that you  
17 should try to give tentative or definitive answers on some  
18 of them, even though you and others may frame them in a  
19 different way. The urgency is implicit to me in the low  
20 morale and doubts amongst the railroaders I know, com-  
21 pounded by the public image of the railroads as inefficient,  
22 decadent enterprises. I am sure our railways are good  
23 employers, that they have had good management, that  
24 their role in freight movement will continue to be crucial  
25 to our national well-being; in sum that they are not the  
26 recalcitrant duds named in the brief presented to you by  
27 the Province of Ontario.

28 6. Those of us in Northwestern Ontario must be  
29 selfish and arrogant enough to point out our situation and  
30 our needs. We have not now nor in sight the population,







1  
2 market, skills, or low transportation costs for manu-  
3 facture of the secondary kind which has burgeoned so well  
4 in the Windsor-Toronto, North Bay-Montreal quadrilateral.  
5 Whatever our agricultural potential in arable land, the  
6 climate, the high capital cost of farming in the bush,  
7 and our small market have meant a declining farm popu-  
8 lation in the past decade. This farm decline has been  
9 absolute, not relative in nature. Thus we are left  
10 with three growth potentials: forestry, mining, and  
11 tourism. The latter is not a factor in transportation  
12 discussions.

13 7. Most of our forest resource is exploited in  
14 terms of pulp and paper manufacture. Our woods industry  
15 is oriented to massive, heavily-capitalized corporations  
16 working on huge timber limits held from the Crown. Our  
17 forestry operations are extensive, not intensive, and  
18 so transportation costs on the raw material side are  
19 large. In a general way, railways have not played a  
20 major part in bringing wood to the mills. It could have  
21 played a larger one if rates had been lower; it is  
22 doubtful now, given the huge limits, the water routes,  
23 and the forest road structure now developed, if railways  
24 can gain much freight traffic from the woods side. On  
25 the other hand, rail freight costs are relatively more  
26 important in the supply of materials for mill manufacture  
27 and the consumer needs of the paper mill towns. If we  
28 could get these costs down it might be a marginal but  
29 vital factor in making us more competitive with rivals in  
30 the U.S.A. or Europe. There are no limitless frontiers





1  
2 of expansion in the pulp and paper industry for our region.

3 It is generally accepted that we have the highest pulp  
4 costs of any producing area in North America. Lower  
5 costs could encourage a fractional expansion to the limits  
6 of our forests' regenerative capacities. My point here  
7 is that forest/potential is limited. We need to seek  
8 these limits and incidentally to generate more traffic  
9 in the "bridge".

10 8. Our mineral resources, especially in terms of  
11 iron ore, represent the messianic or siren song I wish  
12 to sing to you today. We have the potential in numerous,  
13 large deposits and in natural gas as a beneficiating  
14 medium to place right in the physical heart of Canada  
15 enterprises which will build population, new communities,  
16 and new freight traffic of largescale bulk commodity and  
17 long-haul, high value nature. Cure the greatest devility  
18 one can discern in the Canadian freight rates picture,  
19 i.e., the maligned, so-called sterile bridge. How?  
20 By the initiation (one would hope) of a recommendation  
21 from you that either subventions, subsidies, develop-  
22 mental rates, ore tonnage bonuses -- call them what you  
23 will -- be guaranteed as a fillip to mining groups which  
24 are in or go into production.

25 9. I believe that the nature of the Northwestern  
26 Ontario growth problem is central enough to your subject  
27 to justify such a recommendation for this region alone.  
28 It should, however, be offered to the whole of Canada.  
29 You are aware of analagous patterns elsewhere in the  
30 present transportation picture. The Maritime coal sub-







1  
2 ventions or the statutory grain rates seem to me to fit  
3 the frame. Of course, these developed out of status-  
4 quos; I suggest you consider status- or need-to-bes.  
5 10 Finally, let me underline an indigenous  
6 economic factor which adds an imperative to our future  
7 well-being. An off-shoot of it can be noted in the high  
8 level of unemployment our region has had in the past four  
9 years. This has ranged over the 20% mark through much  
10 of the winter months and keeps above the national percen-  
11 tage in the summer months. Our basic employing concerns  
12 are the railways, the grain trade houses, the woods  
13 producers, the paper-mills, and the mines. All these  
14 (even the elevators) by large capital expenditures and  
15 improved machinery and work rationalization have zoomed  
16 their productive capacity without adding substantially to  
17 the labour force. Indeed, in the bush and on the rail-  
18 roads, much much more can be produced with less manpower  
19 than four years ago. This trend, so vividly apparent  
20 here, makes more urgent our need for new growth based  
21 on massive ore treatment and movement. Regionally, we  
22 have kidded ourselves that we are one of the boom areas  
23 of Canada. My compilation of population statistics for  
24 the Fort William-Port Arthur and hinterland area in the  
25 past decade belies this. Our percentage increase in  
26 population each year is usually at or below the national  
27 average. I believe this trend can only be reversed  
28 through deliberate policy and leadership by the two senior  
29 levels of government. You have the ear of the more im-  
30 portant of these. Please give it something to act upon;





1  
2 something for the bridge itself, rather than a mere  
3 bridge subsidy for the shippers west and east. Thank  
4 you.

5 THE CHAIRMAN: Well, thank you, Mr. Fisher.  
6 I think the questions that you have posed to us indicate  
7 how even you regard the magnitude of the job we have to  
8 do.

9 MR. FISHER: Would you like my comment there?

10 THE CHAIRMAN: I would, yes.

11 MR. FISHER: I have been reading very many  
12 of your hearings and I feel extremely sympathetic and  
13 sorry for you. It seems to me you are being buried under  
14 information, and throughout your hearings there is this  
15 crossfire between the Western interests and the C.P.R.,  
16 with the C.N.R. trailing along in the background, and I  
17 get the impression that the issue of this question of the  
18 Crow's Nest Rates has tended to take over the whole thing.  
19 You, at your first organizational meeting, said you  
20 couldn't interpret what was said in parliament. I was  
21 there, and I know that the interpretation there was that  
22 you were going to study more than the Crow's Nest Rates.

23 THE CHAIRMAN: We are studying more than the  
24 Crow's Nest Rates. It is one of the subjects we are  
25 taking in. It has been emphasised, but we are taking  
26 the whole transportation problem before us.

27 --- CROSS-EXAMINATION BY MR. HUME

28  
29 Q. Mr. Fisher, I represent Canadian Trucking  
30 Associations, and I would like to ask you a question







1  
2 concerning Paragraph No. 4 on Page 2. I am sorry, but  
3 I heard you read it and I am not clear what you are saying  
4 in that paragraph. You say:

5 "Are we to throw open competition in Canadian  
6 transportation (restricting the role of the  
7 Board of Transport Commissioners) or move  
8 towards nationalized transportation, initially  
9 through nationalizing the railroads?"

10 Would you be good enough to explain what you  
11 mean by that?

12 A. Well, it seems to me fairly obvious if  
13 you look at Currie in his Economics of Transportation.  
14 He poses that in his very first chapter: Canadians have  
15 never made up their minds whether they want a completely  
16 private enterprise transportation system or a social  
17 set-up. I am suggesting at this time that this Board  
18 consider this and make a recommendation. I was moved to  
19 do this through reading that book which has formed a part  
20 of your commentary by Meyer, Stenason and Zwick.

21 Q. I understand that when you are referring to  
22 Canadian transportation that covers everything, air,  
23 pipe-lines, water, truck, railway, private trucks -  
24 everything?

25 A. Yes. Could I just make a point here?  
26 I am not suggesting it should go one way or the other.  
27 I think the situation has to be faced up with.

28  
29 BY COMMISSIONER GOBEIL:

30 Q. Mr. Fisher, you say on Page 5 of your





1  
2 brief:

3 "It is generally accepted that we have the  
4 highest pulp costs of any producing area in  
5 North America."

6 MR. FISHER: Yes.

7 COMMISSIONER GOBEIL: This is not due to high  
8 railway rates?

9 MR. FISHER: I am not arguing that the railway  
10 rates are a factor in it; I am tending to argue that the  
11 railways cannot make much contribution to lower pulp costs.  
12 But they can make a contribution to mill costs, like  
13 limestone, sulphur, and things like that. I tend to  
14 rule out any contributions railways can make in lower  
15 pulp costs. That can be open to argument, especially  
16 in Quebec, where the railway is open to Three Rivers there.

17 BY COMMISSIONER MANN:

18 Q. One of the arguments that the advocates  
19 of free competition in transport have is that it will  
20 lead to optimum allocation of resources. What I was  
21 wondering about is whether it is possible that a highly  
22 intensive control of transportation might also lead to  
23 optimum allocation of resources in transportation.

24 MR. FISHER: I think your weakness is in both.  
25 My concern about regulatory agencies is that always,  
26 instead of being directors or managers, they become  
27 merely a court that makes a decision, and I think you  
28 can see what has happened in the Federal Trade Authority  
29 or Commerce Commission in the United States, or even the  
30







1  
2 Board of Transport Commissioners - a tendency for these  
3 boards to become captives in these groups, just as in  
4 the camaraderie of these high-priced counsel. You  
5 can see that, and that is one of the difficulties, it  
6 seems to me, of government regulation of quasi- or semi-  
7 private enterprise. It seems to me we have got to face  
8 up to this whole thing. It is implicit in the truckers'  
9 brief. Either you have to accept how much they are  
10 putting out or you say you cannot afford to go this way  
11 any longer.

12 COMMISSIONER MANN: You say in sub paragraph  
13 (g) on Page 3, you raise a question concerning capital  
14 expenditures of the various transport facilities, and  
15 so on. Do you feel that there is a mis-spending by  
16 various levels of government? - not that the specific  
17 expenditure is wrong but perhaps the specific expenditure  
18 is not being considered in an overall way?

19 MR. FISHER: I feel very much so. When I  
20 think of the money being spent on jet runways to get  
21 people to Vancouver an hour or so sooner, it seems to  
22 me that we need to coordinate the whole transport picture,  
23 when the poor taxpayer is getting suckered wherever  
24 you go. Now we have the truckers coming in suggesting  
25 that they want to elbow in on the subsidies; we have  
26 the west concerned about the Crow's Nest Pass Rates,  
27 which is a contract, almost as pure as the B.M.A. Act  
28 is to Quebec. They are afraid of the word "subsidy",  
29 and yet the overall pattern is that somebody is getting  
30 a subsidy one way or another, and all I am suggesting is





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Fisher  
(Mann)

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1

2 that your job is to try to make some sense or some  
3 pattern out of these subsidies.

4 COMMISSIONER MANN: You feel there should be  
5 more coordination between various levels of government  
6 in capital spending?

7 MR. FISHER: Oh, very much more in transportation  
8 facilities. I could elaborate on that, but ...

9 COMMISSIONER MANN; Thank you very much.

10 THE CHAIRMAN: Thank you, Mr. Fisher.

11

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SUBMISSION BY

LUBERT BADANAI, M.P.  
FORT WILLIAM

THE CHAIRMAN: Mr. Badanai?

MR. BADANAI: Mr. Chairman and members of the Royal Commission on Transportation: first of all, -I should like to extend to you on behalf of the City of Fort William a hearty welcome to the Lakehead.

Before I proceed to read my very brief brief, I should like to say that my friend, Mr. William Benedickson, the member for Kenora, Rainy River, who would have been here had it been possible for him to leave the House of Commons where he has a special duty to perform today, has asked me to convey to you, sir, that he is fully and whole-heartedly in support of the briefs which are being presented to you on behalf of Northwestern Ontario. Mr. Benedickson by virtue of the fact that he is the representative of Kenora, Rainy River and Sioux Lookout and Atikokan is very much interested in the proceedings taking place here today. He is also very much interested in seeing that that part of Northwestern Ontario which he represents receives a fair hearing and fair treatment, which I am sure it will by your Commission.

In view of the excellent representations which are being presented by the General Manager of the Northwestern Ontario Development Association who best represents this region's point of view, and Mr. E. G. Charnock, Chairman of the Joint Transportation Committee, who is an acknowledged expert in matters of Transportation,





1  
2 and that of my colleague in the House of Commons; Mr.  
3 Douglas Fisher, and others, I do not intend to elaborate  
4 greatly on the problem for the solution of which you  
5 accepted an invitation to come to the Lakehead to hear  
6 our side of the story.

7         The story is one of neglect and discrimination  
8 -- it is just a struggle -- it could easily be classed  
9 as a sad one. That costs of all things the farmer has  
10 to buy have increased to an extent that the average  
11 farmer in our territory has a hard time getting along,  
12 and that Freight Rate increases distributed on a percent-  
13 age basis on such commodities as fertilizer and certain  
14 feeds, add to his troubles.

15         This is one of the reasons for the slow develop-  
16 ment of agriculture in our district.

17         Indeed, we have a wonderful district here  
18 quite capable of supporting a considerable farming  
19 population, but owing to the various factors, including  
20 the high cost of transportation, it means that the  
21 farmer is placed at a great disadvantage by comparison  
22 with other sections of the country.

23         Indeed the depressed state of farming in the  
24 district of Thunder Bay can, in a large measure, be  
25 attributed to the inequality of freight rates. The  
26 present freight rate structure is responsible for higher  
27 cost of living in the Lakehead in comparison with other  
28 areas because of transportation costs of goods and  
29 materials.

30         Consider the case of a large local department







1  
2 store which is the experience typical of all wholesalers  
3 and retailers in the area. This particular store  
4 handles several million dollars worth of merchandise a  
5 year, a percentage of which is due to the operation of  
6 branch stores in Atikokan, Dryden, Beardmore, Schreiber,  
7 Geraldton, and Marathon. Goods have to be shipped to  
8 these points from the Lakehead.

9 The paradox of the situation is that the firm  
10 pays nearly twice as much for these shipments than if they  
11 were originating in Montreal, Toronto or Vancouver.

12 Any horizontal increases in freight rates work  
13 against our wholesalers and retailers alike, in securing  
14 supplies as well as in distribution.

15 The next paragraph which I have on my brief  
16 here may be hard to prove, and for that reason I think  
17 I am going to leave it out: not that I am not sure of  
18 this particular feature, but I am going to read it for  
19 the information of those who may not have a copy of it.

20 Merchandise under the existing rates can be  
21 shipped to Atikokan from Winnipeg cheaper than you can  
22 ship the same articles to that point from the Lakehead,  
23 notwithstanding that the distance between Winnipeg and  
24 Atikokan is more than twice as far as from the Lakehead  
25 to the latter point.

26 There may be room for argument there.

27 Some will argue as I have heard it, that the  
28 source of the whole problem is to put the railway on a  
29 paying basis somehow. This may sound plausible enough  
30 but we are not going to succeed by permitting such patent





1  
2 --"variation". I have "discrimination" here, but I  
3 understand the railways do not like the word "discrimin-  
4 ation", so I will substitute "variation" for "discrim-  
5 ination".

6 This may sound plausible enough but we are not  
7 going to succeed by permitting such patent variations  
8 which allows this paradoxical system of charging more to  
9 move products from say, Fort William to Winnipeg than  
10 from Toronto to Winnipeg.

11 There may be room for argument in that partic-  
12 ular paragraph.

13 This excessive freight rate disadvantage was  
14 chiefly responsible for the removal of the bus manufac-  
15 turing operation from the local plant of the Canada Car  
16 to Montreal.

17 I believe this hearing to be so important and  
18 that success is so vital to the development of Northwestern  
19 Ontario in general and of the Lakehead in particular,  
20 that every step should be taken against failure.

21 I have no hesitation to say that in a sense we  
22 feel that the immediate prospects for the realization of  
23 our industrial and commercial growth rests in no small  
24 measure in the recommendations which you as Members of  
25 the Royal Commission will include in your report to the  
26 Government of Canada.

27 I wish to thank you, Mr. Chairman, and  
28 Members of the Commission for listening to this very small  
29 brief.

30 THE CHAIRMAN: Thank you very much, Mr.







1

2 Badanai. Are there any questions?

3

4 CROSS-EXAMINATION BY MR. BURBIDGE:

5

6 Q. Mr. Badanai, my name is Fred Burbidge and  
7 I prepresent Canadian Pacific, and I am puzzled by the  
8 second paragraph which reads: "The story is one of  
9 neglect and discrimination. It can easily be classed  
10 as a sad one. It could not be otherwise when you consider  
11 that farmers in the State of Illinois ---

12 A. I have taken that out, sir. I didn't  
13 read that paragraph.

14 Q. I see. Further along you say it costs  
15 more to ship goods from Fort William to points in this  
16 area than it costs to ship them from Montreal and Toronto,  
17 and we have not been able to check those rates. Our  
18 information is the exact reverse. For instance, under  
19 the class rates, Column 45, Montreal to Marathon is  
20 \$2.02 and Fort William to Marathon is 81¢, and you get  
21 similar results from Montreal to Dryden as against Fort  
22 William to Dryden. Have you anything to say on that?

23 A. Well, I have to say that I am referring  
24 particularly here to this struggle the farmers are having  
25 in this locality, and they find it hard to make ends  
26 meet. You say that your rates are more favourable ---

27 Q. Well, I am speaking of the paragraphs in  
28 your brief.

29 A. I haven't got that information and if you  
30 say they are more favourable -- well, all right.

MR. MAURO: Perhaps Mr. Burbidge would ask





1  
2 the member or advise the member as to how much would  
3 move under that class rate.  
4 MR. BURBIDGE: Well, I was starting on the  
5 basis of the class rates, because his information is  
6 information which we cannot check out, and I was wondering  
7 if he could explain it a little further.  
8 MR. MAURO:: I think, in fairness to the  
9 witness, Mr. Chairman, there are two additional  
10 witnesses coming up with fairly extensive briefs giving  
11 specifics .  
12 THE CHAIRMAN: Where there will be more on  
13 rates?  
14 MR. MAURO: Yes.  
15 THE CHAIRMAN: Thank you, Mr. Badanai.  
16 MR. BADANAI: Thank you.  
17  
18  
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SUBMISSION BY

THE NORTHWESTERN ONTARIO  
DEVELOPMENT ASSOCIATION

Appearance:

Mr. Alexander Phillips

--- EXHIBIT NO. 139            Map enclosed with brief.

Mr. Chairman and Commissioners:

1.            Our association desires to join with others in extending to you a cordial welcome to Northwestern Ontario and the Canadian Head of the Lakes. Coupled with this sincere greeting, our association takes this opportunity to express its deep appreciation to the commission for the decision to hold a hearing in this part of Ontario. Your generous response to requests by organizations in the Northwest and the Lakehead for a special sitting only can be interpreted as indicative of the highest sense of responsibility to all Canadians that animates your collective labors. It is an inspiring illustration to us of your devotion to the great task of finding solutions to our country's transportation problems. Toward that objective it is our earnest desire to be helpful.

2.            Gentlemen of the Commission: While I am privileged to present this brief on behalf of our association, I'm bound frankly to admit at the outset, however, a lack of expert knowledge of the complexities of the Canadian freight rate structure. Our comprehension of this bewilderingly complicated subject is that of ordinary laymen. In explanation, our association does not possess the resources to retain and be repre-





1  
2 sented here by a consulting economist authoritative in  
3 the field of transportation. Nevertheless, we are  
4 impelled to make this submission by the conviction that  
5 there is a serious imbalance in the existing Canadian  
6 freight rate structure that is detrimental to the economy  
7 of Northwestern Ontario and a grave deterrent to the full  
8 realization of its immense potential.

9 3. Our association is an incorporated, non-profit  
10 organization, financed by municipal and provincial  
11 grants, one of seven such associations now functioning  
12 in Ontario. It seeks to co-ordinate regional efforts  
13 toward greater development and to publicize the advan-  
14 tages of the region for business and industrial purposes.  
15 Its member-communities number 29 and include the princi-  
16 pal centres of Fort William, Port Arthur, Kenora, Fort  
17 Frances, Atikokan, Dryden, Sioux Lookout, Keewatin,  
18 Nipigon, Geraldton, Marathon, Rainy River, Red Lake,  
19 Balmertown and such large rural municipalities as  
20 Shuniah and Neebing. Hence our vital interest in the  
21 current inquiry and its significance in the future pro-  
22 gress and prosperity of our region.

23 4. Northwestern Ontario comprises the district  
24 of Thunder Bay, Rainy River, Kenora and Patricia,  
25 nearly 213,000 square miles in extent - slightly more  
26 than half the land and water mass of Ontario - and  
27 rivalling in size each of the three prairie provinces.  
28 It stretches from the boundary of Manitoba to the  
29 districts of Algoma and Cochrane and from Lake Superior  
30 and Minnesota to Hudson and James Bays. In the centre







1  
2 of the Precambrian Shield, it possesses vast treasure  
3 in base and precious metal ores, great stands of con-  
4 iferous and hardwoods forests, huge reserves of pure  
5 water, and, surprisingly to many, more than one million  
6 and a half acres of arable land.

7 5. That this big region is growing is evident in  
8 its population gain from less than 150,000 a decade ago  
9 to approximately 220,000 today. While the area has made  
10 creditable progress in the development of its natural  
11 resources, it has only been able to do so in the face  
12 of great deterring factors. Northwestern Ontario has  
13 lagged behind some sections of Canada in development of  
14 its resources, in diversification and expansion of  
15 industry, while its population 93 years after Confeder-  
16 ation is but one person per square mile. One of the  
17 most richly endowed areas in Canada, it still is one of  
18 the most underdeveloped and most sparsely inhabited. We  
19 respectfully submit that our progress is being retarded  
20 by a freight rate structure that is no longer geared to  
21 the development needs of the nation and that national  
22 economic policy is thereby frustrated.

23 6. Any one who has lived in Northwestern Ontario  
24 and has even a cursory knowledge of the history of  
25 Canada would be the first to salute the massive achieve-  
26 ment of spanning the Canadian Shield north of Lake  
27 Superior with steel rails and the supreme accomplishment  
28 of unifying and opening up a new nation. We are told  
29 that the first rails of what was to become the Canadian  
30 Pacific Railway Company were laid in the western section





1  
2 of Fort William and one of that city's main thoroughfares  
3 is named for the syndicate that undertook so audacious  
4 an enterprise. As the Canadian Lakehead underwent the  
5 transition from a fur-trading economy to one of lake and  
6 rail transportation the Canadian Pacific built the first  
7 grain elevators at Fort William and continued to operate  
8 them until the grain industry attained sufficient dimension  
9 and maturity to assume this operation. The pioneering  
10 role of the railways in the development of Canada is an  
11 unquestioned historic fact and a thrilling chapter in  
12 our annals. Land grants and public assistance cannot  
13 dim the lustre of man's conquest of colossal physical and  
14 financial barriers to open its unpeopled spaces to  
15 pioneers and put our country on the pathway to nation-  
16 hood. What we respectfully submit to the commission is  
17 the suggestion that the greatest development of Canada,  
18 and particularly Northwestern Ontario, still is to come.  
19 What is needed, in our view, to expedite such growth  
20 is a freight rate structure that will enable our rail-  
21 ways to function with maximum effect as a development  
22 force in furtherance of national economic policy.  
23 7. Great as has been their role, however, rail-  
24 ways are not the only instrument of development in  
25 Northwestern Ontario. The very substantial capital  
26 investment, private and public, in our region during  
27 the post war era demonstrates the confidence of investors  
28 in the future of the area. It is our submission that  
29 this belief in the potential of the region requires and  
30 should receive the protection of fair and equitable







1

2 transportation costs.

3 8.

The Chambers of Commerce of Port Arthur and

4 Fort William jointly are submitting a brief to the

5 commission but some general reference should be made here

6 to the special position of the Lakehead. The twin cities

7 occupy an important place in the economy of Canada - as

8 the rail and shipping crossroads of the nation, as an

9 industrial centre whose products are consigned to many

10 parts of the continent and as a distribution and supply

11 hub serving Northwestern Ontario and Western Canada.

12 Their population approaches 90,000 and that of the

13 lakehead area, urban and semi-rural, is approximately

14 100,000, or nearly one-half of the total population of

15 Northwestern Ontario. Terminus of the St. Lawrence and

16 Great Lakes deep waterway, the Lakehead is the third

17 largest port in Canada in tonnage handled, yielding only

18 to Montreal and Vancouver and approximately equalling the

19 combined tonnage of the ports of Toronto and Hamilton.

20 In a single navigation season up to 12 million tons of

21 grain, iron ore, coal, newsprint, pulpwood, petroleum

22 products and general freight are handled by the twinports.

23 In the opening, experimental seaway year, 131 ocean

24 ships called at the Lakehead. The harbors have 36 miles

25 of protected waterfront, 26 grain elevators with a

26 storage capacity of 93 million bushels, largest of all

27 ports in the world. Twelve storage and transit sheds

28 represent 250,000 square feet of space with a combined

29 capacity of 70,000 tons. Under construction is a \$7.5

30 million general cargo terminal, a federal project, to





1  
2 berth both ocean and lake ships, with rail and highway  
3 access. The two trans-continental railways have more  
4 than 350 miles of marshalling and industrial trackage.  
5 Industrial production embraces newsprint and fine papers,  
6 lake ships, aircraft components, tractor trailers,  
7 chemicals machinery, concrete and construction materials,  
8 wheat starch, jute bags, tents and awnings. Four pulp  
9 and paper mills make the Lakehead a large producing  
10 centre.

11 9. With the entry of Newfoundland into Confeder-  
12 ation, the Lakehead is situated at almost the exact  
13 midway point in Canada. It stands at the terminus of  
14 a deep waterway to the very heart of the country, a  
15 double-hinged gate swinging open to the Great West and  
16 eastward to the ports and markets of the world. At its  
17 back door is an empire of forests, minerals, soil and  
18 water. With all these natural advantages, why has the  
19 development of the Lakehead and its sister communities  
20 of the Northwest been limited largely to resource  
21 industries? We do not pretend to know all the answers  
22 but a serious handicap to increasing and diversifying  
23 secondary industry is the factor of distance separating  
24 our region from the populous market areas east and west.  
25 Importation of raw materials or components and their  
26 processing or fabrication plus long-haul export to  
27 markets pose formidable barriers to competitive  
28 operations.

29 10. We recently witnessed the transfer of commer-  
30 cial production from the Fort William plant of the







1  
2 Canadian Car Company Limited to a Montreal, Quebec,  
3 plant of the company. Building of gas and diesel  
4 passenger buses and tractor trailers was inaugurated by  
5 the company here, employing up to 1,500 persons in the  
6 post-war years. The operation developed a valuable  
7 pool of engineering and technical skills. It provided  
8 sub-contract work to other plants in the area and was a  
9 large purchaser of materials. In short, Can-Car was a  
10 major contributor to the general economy of the region.  
11 In announcing cessation of commercial production at the  
12 Lakehead and transfer of such operations to Montreal, the  
13 company stated that a comprehensive research study had  
14 determined that its competitive position would be enhanced  
15 by the change. Transportation costs in connection with  
16 Lakehead operations were mentioned. Not only was the  
17 Can-Car decision a serious loss to the area but also a  
18 severe blow to the Lakehead's prospects of attracting  
19 other manufacturing enterprises.

20 11. It has been stated before the commission that  
21 it is not the function of railway freight rates to offset  
22 geographical or other disadvantages of industries or  
23 areas. In practice, it would appear that the opposite  
24 effect is sought, to offset the natural advantages of  
25 Northwestern Ontario's central position and proximity to  
26 the deep waterway. This region seeks only practical  
27 recognition of its natural advantages within the rate  
28 structure. Otherwise, any real decentralization of  
29 industry in Canada must be regarded as a myth - impossible  
30 of achievement in large measure. Balanced development





1  
2 of the country will not ensue. Canada will continue  
3 increasingly to become a few densely populated and highly  
4 industrialized islands in a vast land mass, development  
5 of which is stymied by distortions in the freight rate  
6 structure where statutory provisions do not apply and  
7 where competitive factors do not exist.

8 12. While other provinces have placed their special  
9 problems before Royal Commissions in the past Ontario  
10 largely has refrained until now from similar action. No  
11 study has been made of the position of the Northwest.  
12 It has been, in truth, a forgotten part of Canada whose  
13 progress continued in spite of rather than because of  
14 the freight rate structure.

15 13. partly at the instigation of the Northwest,  
16 the Government of Ontario recently made a submission to  
17 this Royal Commission. We urge the commission to consider  
18 carefully those references to our region included in the  
19 provincial brief. We wish to repeat here two observa-  
20 tions by the Ontario Government:

21 1) "... in Northwestern Ontario, railway  
22 rates, aggravated by horizontal increases, can  
23 be a serious impediment to the development of  
24 its resources, the export of forest and mineral  
25 products and also to established trade channels  
26 and markets in that part of the province..."

27 2) "The development of the whole northern and  
28 northwestern part of Ontario is now being  
29 cramped ... The railways, having freedom of  
30 action only in respect of a portion of their







1  
2 total rate structure, are compelled to recoup  
3 themselves where they can, even if it be by  
4 rates in that area which either retard or  
5 prevent development of new traffic and which  
6 tend to drive away a substantial share of  
7 existing traffic..... It appears to us that  
8 some of the rates in northern and indeed south-  
9 western Ontario are being maintained at levels  
10 higher than those made available to other  
11 shippers for comparable distances, though they  
12 are contrary to the railways' own best long-run  
13 interests; there is a reluctance to sacrifice  
14 the immediate revenue, even though it would  
15 strengthen the railways' long-term position...."

16 14. This brief largely is concerned with Clause A  
17 in the terms of reference of the commission?

18 "Inequities in the freight rate structure,  
19 their incidence upon the various regions of  
20 Canada and the legislative and other changes  
21 that can and should be made, in furtherance  
22 of national policy, to remove or alleviate such  
23 inequities."

24 15. While rate increases have totalled 157 per cent,  
25 it has been brought out clearly at the hearings to date  
26 the 75 per cent of the increase has been taken from 32  
27 per cent of the traffic revenue. Among the many  
28 hundreds of agreed charges in effect in Canada, a scant  
29 few apply in Northwestern Ontario. Many of our commun-  
30 ities and industries are in captive positions. We have





1  
2 felt, therefore, the full force of horizontal percen-  
3 tage increases. Existing disparities have been accen-  
4 tuated. Unfair cost burdens have fallen upon the con-  
5 suming public and industry alike, in relation to more  
6 developed and industrialized regions. Horizontal percen-  
7 tage increases, in our view, seem unjust and unjusti-  
8 fiable. This system of increasing rail revenues penal-  
9 izes areas less able to absorb the increase to the  
10 advantage, competitively, of those areas where intensive  
11 rate competition prevails. We respectfully submit that  
12 to ensure a more just and reasonable distribution of the  
13 freight rate burden some other and more equitable system  
14 must be devised.

15 16. Sales Management, a research concern; of  
16 New York City, reported in the Lakehead daily press that  
17 Fort William households spent \$13,487,000 on food in 1958.  
18 Among the interesting statistics was the amount of \$1,273  
19 for food per household. For Canada the average was \$807.  
20 The outlay for food in Fort William represented 32 cents  
21 of every retail dollar. For Canada the average was  
22 quoted as 23 cents. Similar statistics were given for  
23 Port Arthur and it is reasonable to assume similar costs  
24 throughout the Northwest. Either Lakeheaders were  
25 living 'high on the hog' in 1958 or they were paying sub-  
26 stantially more than their fellow Canadians for their  
27 groceries. How large a factor was the cost of transpor-  
28 tation in this glaring disparity in food bills? We  
29 cannot say but the head of a Lakehead food brokerage  
30 firm that carries substantial stocks for distribution







1  
2 locally and regionally makes this observation?

3 "We have felt for years that some freight rates  
4 in this territory are so excessive that they  
5 reach the point of being ridiculous. Just to  
6 give you one case that has come to our atten-  
7 tion recently. We represent a large pickle  
8 firm located at Toronto. This firm is able  
9 to supply its pickles from Toronto to Montreal  
10 at a rate of around 45 cents per hundred pounds.  
11 They ship their pickles from Toronto to  
12 Winnipeg in summer at \$1.57 and in the winter  
13 at \$1.65 per cwt. For us to ship the same  
14 firm's pickles from Fort William to Kenora, the  
15 best rate we can get is \$1.85 per cwt. The  
16 distance from Fort William to Kenora is less  
17 than from Toronto to Montreal. This example  
18 is typical of many freight rates that exist  
19 in this part of the country."

20 17. By personal contact and correspondence, our  
21 association discussed their transportation problems with  
22 a number of business and industrial concerns. Typical  
23 were the comments of the manager of a relatively new  
24 enterprise that has been trying to develop larger markets  
25 for its paper products in Western Canada and mid-west  
26 United States. He observed:

27 "The freight rates generally out of Fort William  
28 are very restricting with regard to developing  
29 and maintaining business. Due to rate changes  
30 and methods of shipping from both Eastern





1  
2 Canada and the West Coast, we are finding it  
3 increasingly difficult to keep the markets we  
4 already have in the Prairie Provinces.

5 "You are aware that there is a continual flow  
6 of empty box cars from the Lakehead to Winnipeg  
7 and West, yet our rail rate to Winnipeg is 91  
8 cents. We could ship a car of newsprint from  
9 the Lakehead to St. Louis, Missouri, routed  
10 through Winnipeg, at a cost of 78 cents per  
11 cwt, or 13 cents per cwt less than if this car  
12 had Winnipeg as a final destination.

13 Similar inequalities exist when shipping by  
14 rail to any point in the United States.

15 Regarding Canadian shipments, one instance  
16 comes to mind. A carload of newsprint can  
17 be shipped from Three Rivers, Quebec, to  
18 Fort William, approximately 1,200 miles, at  
19 a cost of \$25. per ton. However, a carload  
20 of newsprint from Fort William to Saskatoon,  
21 approximately 850 miles would cost \$38 per ton.

22 "Regarding truckers maintaining rail rates,  
23 this seems to be a very flexible point with the  
24 truckers charging exactly what the traffic will  
25 bear. There are some instances where the  
26 trucks are higher than the rail rate, particu-  
27 larly on bulky materials of light weight.

28 Since a good percentage of our business is done  
29 in Winnipeg, and all our Canadian business in  
30 Western Canada, I shall take Winnipeg as a







1  
2 basis for comparison:

3 TRUCK RATES

4

5 Winnipeg	450 miles	84 cents per cwt
6 Duluth	200 miles	29½ cents per cwt
7 Minneapolis	360 miles	53 cents per cwt
8 Toronto	950 miles	85 cents per cwt

9 The inequalities in these rates are immediately  
10 apparent, with the shipments west from the  
11 Lakehead being penalized."

12 18. An engineering and manufacturing company which  
13 handles 2,500 tons of material and products by rail,  
14 truck or ship in a year, and does most of its business  
15 in Northwestern Ontario, reports:

16 "It is our manufacturing operation that has  
17 suffered through the increased freight rates  
18 as we must compete with outside firms for this  
19 part of our business. We find it more  
20 difficult than in the past to pass along in-  
21 creased rates to our customers. We find  
22 truckers maintain rail rates practically 100  
23 per cent. Our retail business is curtailed  
24 as well, especially west of here at Fort  
25 Frances, Rainy River, Kenora and Dryden where  
26 Winnipeg firms seem to be able to compete  
27 against us.

28 19. A company whose plant primarily was built for  
29 the construction and repair of ships has survived geo-  
30 graphical restrictions by expanding into manufacture of  
pulp and paper mill machinery, industrial work, millwork





1  
2 and structural steel. It reports:

3 "Since the war there has been considerable  
4 shipbuilding but high freight rates involved  
5 in bringing materials to the Lakehead have  
6 pretty well put us out of competition with  
7 Collingwood and the yards on the St. Lawrence  
8 River. You will, therefore, appreciate  
9 that every time the freight rates increase, it  
10 just puts us that much futher out of the  
11 picture. On our other work, it is also a  
12 serious matter for us, because a lot of the  
13 work we do is not for this area, and the  
14 higher freight rates go the more difficult it  
15 is for us to compete.

16 20. After thorough research into the economic  
17 feasibility of the project, a forest products plant was  
18 built in Northwestern Ontario just a few years ago. Its  
19 main market was in Eastern Canada and its principal  
20 competition B.C. fir plywood. The experience of this  
21 firm indicates the hazards facing new enterprises in our  
22 region under the system of horizontal percentage increases  
23 in the freight rate structure when applied only to a  
24 portion of the industry; Because of United States rail  
25 competition the last 17 per cent rate increase was with-  
26 drawn in the case of B.C. fir producers and later for  
27 Edmonton and Grand Prairie points. The firm reported:

28 "In roof sheathing and sub flooring our only  
29 competition are the B.C. mills. The effect of  
30 the freight rate has been to increase the cost





1  
2 of a SINGLE MILL.

3 "As such, we feel the rate to be discriminatory.

4 If such pattern is allowed to continue, we can  
5 be faced with the same rate from Nipigon to  
6 Toronto as Vancouver to Toronto, which would  
7 ruin the eastern industry, dependent as it is  
8 on smaller logs than the B.C. competition.

9 21. Another example of the harsh effects of rate  
10 changes on Northwestern Ontario economy is found in the  
11 fishing industry. The area from Kenora to Armstrong,  
12 on the C.N.R., ships approximately 2,200 tons of fresh  
13 fish annually mostly by railway express. The proximity  
14 of Lake Erie (which produces 60 per cent of the Ontario  
15 catch of fresh fish) to the markets of Ontario and the  
16 nearby states give it a distinct advantage. When the  
17 market is glutted the six to seven cents per pound express  
18 charges from Northwestern Ontario increase the difficulties  
19 of selling in the eastern markets. Apart from offering  
20 lower rates on carlots and larger shipments to one  
21 destination, no helpful consideration was given to the  
22 position of the area fishing industry. As Northwestern  
23 Ontario points never have carlots and seldom 10,000  
24 pounds to one destination, such quantity concessions are  
25 practically useless. Then, on June 15th, 1959, lower  
26 rates were put into effect from Winnipeg to Eastern  
27 Ontario and Montreal. On a classification weight basis,  
28 less than carload rates, Winnipeg to Toronto, were set  
29 at \$4.45, \$4.25 and \$4.00. The Winnipeg-Montreal rates  
30 were similar. The rate from Hudson to Toronto remained







1  
2 \$4.70 and to Montreal \$4.95. Add 25 cents for ice and  
3 box and the actual rate from Hudson to Montreal was  
4 \$6.19. A fishing firm executive reported:

5 ".....At first we were notified that these  
6 rates would apply to intermediary points in  
7 Northwestern Ontario but were later informed  
8 that they did not apply, that the rates were  
9 to meet truck competition from Winnipeg only.  
10 "The truth is that the express companies have  
11 truck competition from points in Northwestern  
12 Ontario. For instance, when a Detroit firm  
13 wires Hudson or Kenora to ship the fish con-  
14 signed to them via Winnipeg the express company  
15 gets only the short haul to Winnipeg and the  
16 trucker gets the long haul to Detroit. This  
17 competition will become greater as the roads,  
18 including the Trans-Canada highway, become  
19 better and secondary roads are hard surfaced.  
20 "It is submitted that it is an injustice that  
21 fish shipped from Northwestern Ontario should  
22 have to pay larger express charges than from,  
23 Winnipeg, Manitoba, on trans-continental  
24 trains passing right by our doors."

25 FOREST PRODUCTS INDUSTRY

26 22. The forest products industry is the principal  
27 pillar supporting and sustaining the economy of North-  
28 western Ontario. It is the sole or major industry of a  
29 half dozen of our communities and a vital factor in the  
30 prosperity of others. Raw wood harvested in the region





1  
2 is transported to plants by water, truck and rail. It  
3 is estimated by timber operators that rail haul of pulp-  
4 wood steadily has decreased from more than a quarter of  
5 a million cords to less than 50,000 cords annually. One  
6 reason: Successive horizontal percentage increases in  
7 rates. Rigidly applied rate hikes thus have cost the  
8 rail carriers large tonnage and revenue while the operators  
9 were forced into road construction and trucking to hold  
10 the cost line. Other concerns were compelled to curtail  
11 operations or ceased business altogether.

12 23. To illustrate the trend we cite the case of an  
13 experienced and successful Northwestern Ontario timber  
14 operator. He wanted to accept proffered orders for  
15 substantial supplies of raw wood but his statistics  
16 determined that current freight rates prohibited a break-  
17 even operation. He sought revision of the rate but to  
18 no avail. His plea to high executive levels of the  
19 state-owned railway were accompanied by a frank warning  
20 that under existing conditions no woods operation would  
21 ensue. No action resulted. When, however, it became  
22 apparent that the operator meant exactly what he said,  
23 railway representatives indicated eagerness to discuss the  
24 situation anew with a view to rate readjustment. It was  
25 too late. The woods camps were empty that winter. The  
26 operator estimated the railway lost \$463,000 in revenue,  
27 while hundreds of pulpwood cutters remained unemployed.  
28 Ironically, while this dead loss to the regional economy  
29 occurred, the federal government wrestled with the problem  
30 of stimulating winter employment. The state-owned







1  
2 railway's protracted obsession with a rigid rate structure  
3 nullified the state's efforts to spur employment and, in  
4 so doing, disrupted the conversion of the area's natural  
5 resources into new wealth - merchantable timber, jobs,  
6 payrolls.

7 24. None will deny that rates compensatory to the  
8 carrier are a simple necessity if railways are to operate  
9 efficiently and ensure a reasonable profit return, but  
10 in the case of the forest products industry of North-  
11 western Ontario it seems evident that the horizontal  
12 percentage increases have carried the rate structure to  
13 the point of no return at all, either for the railway  
14 or the timber concern restricted to the use of rails.  
15 This can be illustrated by the experience of a long-time  
16 lakehead firm that shipped raw wood 175 miles by rail.  
17 It reported:

18 "In the first shipping season in the Fall of  
19 1945 we shipped on a rate of  $8\frac{1}{2}$  cents per  
20 hundred pounds for wood weighing approximately  
21 4,500 pounds to the cord. The freight cost  
22 per cord was approximately \$3.80. This was  
23 the so-called export rate as this wood was for  
24 an American company. The domestic rate was  
25 perhaps 3 cents less for wood shipped to  
26 domestic mills. The domestic rate is really  
27 a 'remanufacture and furtherance' rate.

28 "Since 1946 the rate has gone up steadily with  
29 the various increases which have been imposed  
30 from time to time. On each occasion we





1  
2       expressed our concern to the railway of arbi-  
3       trarily putting up rates on a bulk commodity  
4       such as pulpwood, especially since this was a  
5       volume business of vital concern to the railways  
6       in this territory.

7       "By 1958 the rate had risen to 19 cents per  
8       cwt on a rate agreement of 4,300 pounds per  
9       cord. With this raise our freight was costing  
10      us approximately \$8.17 per cord. With the  
11      imposition of the new increase of December  
12      1st, 1958, our freight rate for export class  
13      rose to 22 cents per cwt, or \$9.46 per cord.

14      "These rates most definitely had an effect on  
15      the volume of business we have been able to  
16      generate at this point. In 1946 we shipped  
17      approximately 8,000 cords. This figure rose  
18      to a total of 25,000 cords in 1951. Since  
19      that time our total volume dropped off to  
20      2,000 cords in 1958. We had a small operation  
21      in 1959-60.

22      "There is an impressive list of companies that  
23      at one time shipped on these western lines who  
24      have since ceased to do business altogether.  
25      Some of these companies were: Nekoosa-Edwards,  
26      Hammermill Paper, Nipigon Lake Timber,  
27      Newaygo. Even though the curtailment of  
28      export quotas eventually would have reduced the  
29      operations of these companies, one of the  
30      primary considerations was the high cost of rail





1  
2 wood due to the freight rate structure."

3 25. It appears obvious that insofar as railway  
4 traffic in pulpwood is concerned, the carriers in  
5 Northwestern Ontario already have gone beyond the point  
6 of no return. They have lost a position of reasonable  
7 rates and high volume and been reduced to one of very  
8 high rates and very little volume. Both the railways  
9 and shippers have suffered. Like every other business,  
10 the railways have had to increase rates but the throttling  
11 effect on pulpwood rail haul would indicate the increases  
12 have been excessive on raw products of bulk such as  
13 pulpwood. This condition is aggravated by rates on  
14 United States lines in the lakes area which are generally  
15 about half the rate of the Canadian railways. We  
16 respectfully submit that somewhere in the rate structure  
17 there should be a rate with which both railway and shipper  
18 can live, enabling the carrier to recapture a heavy load  
19 of tonnage and the pulpwood company to operate profitably.

20 26. Are the railways making a maximum effort to sell  
21 their services to shippers? H. H. Styffe, timber  
22 operator, Port Arthur, and E. G. Charnock, chairman,  
23 joint transportation committee Lakehead chambers of  
24 commerce, appeared as witnesses before the House of  
25 Commons Standing Committee on Railways, Canals and  
26 Telegraphs, on Thursday, April 16th, 1959. Part of  
27 the transcript of testimony was as follows:

28 "Question: Mr. Styffe, I understand in your  
29 part of the country it is a very simple thing  
30 to make optimum use of freight cars, because







1  
2 pulp is a relatively clean and easy to pack  
3 in freight cars. Do you feel that the railways  
4 are making the maximum effort to sell their  
5 service and make full use of their empty  
6 freight car storage capacity, which is  
7 available from time to time on the line, to a  
8 degree that they can give you some concessions  
9 for giving them volume, in terms of your par-  
10 ticular industry?"

11 "Mr. Styffe: They have proved - I would say  
12 the railroads have gained benefit from the  
13 pulpwood movement because our pulpwood movement  
14 takes place largely in the winter time, and  
15 mostly with gondola cars in our particular area.  
16 We do not handle too much box car movement in  
17 that area - gondolas which otherwise perhaps  
18 are busy in gravel or some other types of  
19 material like coal, during the summer months;  
20 and I think pulpwood has worked to their ad-  
21 vantage in that they have been able to keep  
22 otherwise idle gondola cars busy during the  
23 year.

24 "In regard to clean handling, something was  
25 mentioned the other day in connection with  
26 grain rates. That is, grain people said  
27 there was not so much by way of storage  
28 facilities. We are in much the same position  
29 because no railway is required to put up any  
30 other facilities than to put the cars on the spur.





1  
2 Most of the pulp and paper companies and  
3 contractors move very quickly, the same day,  
4 unloading is also quite rapid, so we do not  
5 have to hold up cars at the other end, as with  
6 grain. Very often we are off in the same day  
7 or two days.

8 "Another point which I wished to bring out in  
9 connection with volume movement on traffic,  
10 which I think is so important to the railways'  
11 business is: These domestic rates on pulpwood  
12 from the large papermill companies are getting  
13 quite high. While they have been unable to  
14 get the rates reduced, they have faced these  
15 higher rates, but there has been a trend towards  
16 moving truck roads into their limit areas to  
17 avoid using the railways. Personally, for  
18 the railways' sake, I believe it is unfortunate  
19 because we have vast quantities of pulpwood  
20 which should normally move by rail.

21 Mr. Chown: Just one complementary question;  
22 are you satisfied that the railways - without  
23 trucking competition in your particular area,  
24 and in connection with your particular industry  
25 - are doing a real job of selling their  
26 services and keeping their freight cars loaded  
27 at all times with this valuable product that  
28 you are putting up?

29 Mr. Styffe: I think the direct answer to  
30 that, in my opinion, would be no, for the







1  
2 reason that while the railway people in the  
3 local level have been very sympathetic to this  
4 problem, it seems to me by the time they attempt  
5 to get the problem all the way through the  
6 chain of various headquarters and on up to the  
7 top, that somewhere along the line the requests  
8 get buried. I believe a good hard look needs  
9 to be given to the possibility of retaining  
10 this great volume of traffic for themselves.  
11 Mr. Fisher: If I may interject there, I  
12 brought this question up with Mr. Gordon,  
13 inasmuch as the Canadian National Railways run  
14 through the greater portion of the pulpwood  
15 region, and he insisted the railways did every-  
16 thing they could. I think the facts that  
17 support the contention of Mr. Chown's question  
18 are these: that we know of no case in any  
19 particular region where an agreed charge has  
20 been made for volume movement of pulpwood. The  
21 trend that Mr. Styffe has remarked upon has been  
22 very noticeable, especially that the firms and  
23 companies are developing their own private  
24 trucking on their own roads despite the very  
25 high cost, rather than use the railway lines  
26 running through pulpwood country, and yet the  
27 fact that the railways have not risen to the  
28 occasion has led to what everyone would say is  
29 a high-cost way of moving this particular  
30 product either to the mill or to the Lakehead





1  
2 for example.

3 Mr. Bell: Well, Mr. Chairman, I think we  
4 should be fair and so I say that because there  
5 is not an agreed charge it does not necessarily  
6 follow that that is the railways' fault.

7 Mr. Charnock: There has been no attempt to  
8 accuse the railways of anything in that respect.  
9 The only thing is that the rate structure may be  
10 quite in order from a rate-making point of view,  
11 but in connection with the economic factors  
12 that our people have to meet they are not - the  
13 structure is not such that it will move the  
14 goods."

15 27. Vulnerability of Northwestern Ontario's forest  
16 products industry to continental and world competition,  
17 because of increasingly high costs, was pointed up in  
18 a recent announcement by leaders in the industry. Mr. P.  
19 V. LeMay, president of the Northwestern Ontario Timber  
20 Operators Association, at the annual meeting of the  
21 organization this year, stated:

22 "High cost of production as well as our present  
23 excessive transportation costs continue to be  
24 major problems facing the producers of North-  
25 western Ontario. Imports or record-breaking  
26 quantities (of forest products) to the United  
27 Kingdom from Russia have had a detrimental  
28 effect on Canadian exports and competition for  
29 markets is becoming keener. Those of us engaged  
30 in the production of pulpwood for our local mills





1  
2 are indirectly facing competition which is  
3 equally keen. This competition is not only  
4 of a national character, in which we must  
5 compete with provinces enjoying lower labor  
6 costs, but is also an international problem.  
7 Wood costs in most of Europe, in the lake  
8 states, in Southern United States and on the  
9 west coast are all lower than our own. In  
10 addition, when we export our finished products  
11 to our major customer to the south of us, we  
12 are faced with a further loss due to the  
13 discount on the American dollar."

14 28. Julian Merrill, president of the Ontario Forest  
15 Industries Association, recently declared that the  
16 threat of competition from Soviet Russia in the world  
17 newsprint market, currently dominated by Canada, is  
18 increasing. He noted the purchase by Russia of two new  
19 284-inch newsprint machines to give it additional tonnage  
20 production to use in the economic war. Russian and  
21 Scandinavian lumber will undersell Canada in European  
22 markets, he said. Before the Northern Ontario Economic  
23 Development Committee, Mr. Merrill testified in April,  
24 1959, as follows:

25 "The increase in freight rates on pulpwood has  
26 only served to put this industry in an unfavour-  
27 able competitive position with mills in other  
28 countries, especially those in the south-  
29 eastern United States, where pulpwood is hauled  
30 much longer distances for a much lower cost.







1  
2 This increase has also placed a hardship on  
3 small communities lying at the greatest dis-  
4 tances from the mills. These communities are  
5 dependent largely on payrolls generated by woods  
6 operations and in certain instances these  
7 operations have been curtailed because the in-  
8 creased cost in freight has been so great as to  
9 make it necessary to secure our supplies of  
10 pulpwood elsewhere. In addition to limit  
11 operations, small individual operations have  
12 been eliminated from our purchase suppliers  
13 and here in turn there have been instances of  
14 hardship imposed.

15 For example, the rate from Valora to Fort  
16 William has been increased 64 cents per rough  
17 cord and from Sioux Lookout 86 cents per cord,  
18 from Hudson \$1.30 per rough cord and \$1.45 per  
19 cord of dewatered wood."

20 THE CHAIRMAN: Over what period?

21 MR. PHILLIPS: That was in the season, I  
22 believe of 1958/1959.

23 THE CHAIRMAN: In one season?

24 MR. PHILLIPS: No, I am not competent to tell  
25 you that, sir.

26 29. Horizontal percentage increases in rates have  
27 hit the Northwestern Ontario forest products industry with  
28 threefold effect: In the rail haul of wood, in the cost  
29 of incoming supplies and in long-haul shipment to customers.  
30 Our association was informed that in the case of one plant





the 17 per cent increase, before application of the \$20 million subsidy, would have increased company costs by a total of \$589,097.94. The added freight costs on outgoing products would have amounted to \$142,097 and on incoming materials and supplies \$447,000. The following indicates the increased cost per ton on major items, based on the last 17 per cent horizontal percentage boost:

RAW MATERIALS FROM EASTERN POINTS OF ORIGIN

Nov.1, 1958    Dec.1, 1958

Alum	Arvida	\$26.20	\$30.80
	Valleyfield	24.40	28.80
Rosin Size		27.80	32.80
Chlorine	Sarnia	40.20	47.40
	Beauharnois	27.80	33.00
Caustic Soda	Sarnia	26.00	30.80
	Beauharnois	27.80	33.00
Sodium Chlorate		28.20	33.20
Sulphur Dioxide		21.40	25.40
Sulphuric Acid		28.00	33.00
Salt Cake		21.80	26.00

RAW MATERIALS FROM WESTERN POINTS OF ORIGIN

November 1, 1958    December 1, 1958

Lime	\$ 9.20	\$10.80
Salt Cake	12.60	14.80
Chlorine	36.00	42.20
Caustic Soda	24.80	29.00

30.        This particular plant employs more than 1,600 persons and has a payroll in excess of \$6,600,000. The







1  
2 grave effect of horizontal percentage increases on its  
3 competitive position is apparent, because in the com-  
4 petitive economy existing for the past several years only  
5 minor increases in the price of its products have been  
6 possible; in fact, certain products suffered a reduction  
7 in the selling price in 1958 and the increased freight  
8 costs have had to be absorbed by the company. A company  
9 spokesman observed:

10 "It is submitted that industries in Northwestern  
11 Ontario cannot continue to absorb arbitrarily  
12 increased freight rates without increasing  
13 selling prices. In the highly competitive pulp  
14 and paper markets today this is not possible and  
15 it is submitted that the Northwestern Ontario  
16 area should receive special consideration so  
17 that manufacturing industries so vital to the  
18 economy of the area will not be handicapped  
19 more than they are now or even be forced to  
20 close down. Just as important as the effect  
21 on existing industries is the effect on  
22 prospective industries that may be planning to  
23 establish in Northwestern Ontario. It is  
24 believed that the high freight rates now in  
25 effect will deter development of our natural  
26 resources and thus the economy of Northwestern  
27 Ontario and Ontario as a whole will suffer."  
28 31, Northwestern Ontario's lumbering industry  
29 similarly has experienced the full brunt of horizontal  
30 percentage increases - on sawlogs to mills and on lumber





shipments. At the same time B.C. fir enjoyed exemption from the last rate boost as indicated in the following table:

LUMBER RATES WEST COAST-DOUGLAS FIR AREAS

	Prior to increase	Current	Increase
Vancouver to Port Arthur	\$ 1.51	\$ 1.74	\$ .23
Vancouver to Toronto	1.58	1.58	no increase
Portland Oregon to Port Arthur	1.53	1.53	no increase
Portland Oregon to Toronto	1.58	1.58	no increase

The Lakehead thus pays 16 cents per hundred pounds more than to Toronto, approximately 1,000 miles farther east.

At the same time the rate from Port Arthur to Toronto has been increased from 63 cents to 75 cents, a boost of 12 cents per hundred pounds or approximately \$2.40 per

thousand board feet. Sawlongs shipped to the lakehead from a regional points, for example Valora, also are under a rate increased from 10 cents per cwt to  $11\frac{1}{2}$  cents or  $1\frac{1}{2}$  cents per cwt, or  $67\frac{1}{2}$  cents per cord, based on

rough jackpine weighing 4,500 pounds per cord. One cord of wood will produce 500 FBM of lumber, which makes the increase on lumber \$13.5 per thousand feet. The total increase therefore is \$3.75 per thousand board feet. In

comparison, spruce lumber shipped from Prince George, B.C., one of the largest shipping centres for western spruce, experienced a rate increase of only  $\frac{1}{2}$  cent per cwt (from \$1.52- $\frac{3}{4}$  to \$1.53 $\frac{1}{4}$ ) or 10 cents per thousand

board feet. A lumberman observes:

"We unfortunately cannot pass this increase of





1  
2 \$3.65, the difference between our increase  
3 and the western increase, on to our customers,  
4 for with the volume of western lumber that is  
5 shipped into Ontario they set the market which  
6 means we are forced to absorb this increase,  
7 which frankly our industry cannot stand."

8 32. While existing pulp and paper mills have  
9 improved and expanded plants in recent years to bolster  
10 their competitive position, no new mills have been built  
11 in Northwestern Ontario in more than a decade. The  
12 Canadian Institute of Forestry, Northwestern Ontario  
13 Section, reported to the Gordon Commission that, by  
14 comparison, new capacity in the Southern states region  
15 undertaken in the mid-fifties was the equivalent of 14  
16 new towns the size of Marathon or Terrace Bay.

17 The association declared:

18 "A comparison on a mileage basis of rates for  
19 railed pulpwood in the United States and  
20 Canada shows Canadian rates to be very much  
21 higher. Freight rates must be realistic for  
22 bulk materials. Present rates limit or  
23 prohibit the selling in available distant markets  
24 of many forest products which could be manu-  
25 factured in this area."

26 33. The Anglo-Newfoundland Development Company, of  
27 Grand Falls, Newfoundland, was granted a licence to a  
28 crown timber limit in the Sioux Lookout area on condition  
29 that a pulp or pulp and paper mill with an initial  
30 consumption of 150,000 cords of pulpwood per annum be







1  
2 commenced by May 1st 1959. Since that time, the company  
3 obtained a three-year renewal of its agreement until May  
4 1st, 1962. Market and other conditions were given as  
5 factors in the postponement of the company's plans, but  
6 excessive freight rates tend to delay or discourage  
7 capital investment in new forest products enterprises.

8 34. Because our pulp and paper products are  
9 exported, it is imperative that they be able to compete  
10 in world markets. High transportation costs not only  
11 weaken their competitive position, but tend to impede  
12 the development of the forest products industry potential,  
13 based on this great natural resource. Furtherance of  
14 national economic policy consequently is frustrated,  
15 progress is penalized and the railways' own efforts to  
16 increase revenue defeated. We urge the commission to  
17 examine this situation in the national interest.

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19  
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22  
23  
24  
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26  
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30





1 --- On resuming after the recess.

2 THE CHAIRMAN: Mr. Phillips?

3 MR. PHILLIPS: Mr. Chairman, this is the  
4 last portion of the brief, and I believe it does hold  
5 the master key to our economic future, and I would  
6 like to read that portion to you, sir.

7 THE MINING INDUSTRY

8 35. The mining industry of Northwestern Ontario is  
9 a young giant just beginning to flex its muscles in the  
10 production of iron ore, copper, gold, silver and zinc.  
11 While the gold mines primarily are consumers of materials,  
12 with little freight backhaul, transportation costs  
13 nevertheless play an important part in whether or not a  
14 mining operation and its related activities, such as  
15 townsite development, exploration and development survive  
16 in the face of all other rising costs of operation.

17 36. The Red Lake gold mining area, with five  
18 producers, is remote from a railhead and must rely on  
19 trucking principally for transport of its goods and  
20 services. The railways have lost and continue to lose  
21 an ever greater share of tonnage to the trucking industry  
22 on both eastern and western hauls due to lower delivered  
23 cost. Figures show that the trucking tariffs give the  
24 Red Lake mines a saving of approximately 27 per cent over  
25 rail and truck, excepting in carload lots of commodity  
26 goods, such as steel balls, cyanide, lime, cement and  
27 other materials. It is unfair to the railways in one  
28 sense, that the mines give them only those goods which  
29 cannot be transported by truck at a more reasonable rate  
30 but costs make it a necessity and imperative to their







1  
2 survival. On this point a mining executive comments:

3 "The gold mining industry cannot pass along  
4 increased costs but must meet increases with  
5 greater productivity, closer supervision of  
6 internal costs and reduced labor force. This  
7 generally means smaller supporting industries,  
8 smaller townsite, cheaper services, restricted  
9 exploration which tend to reduce the surge of  
10 growth needed to expand our northern frontiers."

11 37. Copper-zinc production in Northwestern Ontario  
12 is comparatively recent but a substantial segment of our  
13 mining industry. For overall stability, it seeks world  
14 markets rather than restriction to United States users  
15 with accompanying quotas and similar hazards. But  
16 application of the Canadian freight rate structure would  
17 seem to deny our copper-zinc mines entry into overseas  
18 markets. Willroy Mines Limited, of Manitouwadge, is  
19 a case in point. Though remote from Eastern Canada and  
20 American smelters, Willroy is within reasonably short  
21 rail haul of Lake Superior and a seaway lane direct to  
22 Europe. This compensating factor, it was felt, placed  
23 Willroy in a most favorable position to compete. The  
24 rate for zinc concentrates from Willroy to Port Arthur,  
25 however, is \$5.10 per ton. The rates to Noranda,  
26 Quebec; LaSalle, Illinois; and Newcastle, Penn.,  
27 average out to 1.1 cents per net ton mile whereas the  
28 \$5.10 rate to the Lakehead works out to 1.8 cents per net  
29 ton mile. A Willroy executive observes:

30 "Our view is that this rate is extremely high





1  
2 for our type of product and is the deciding  
3 factor in cutting us off from markets easily  
4 accessible by water from Port Arthur. Our  
5 company operated during 1958 at a net loss of  
6 \$557,488.73 and during this time we paid out  
7 \$988,689.35 in freight charges. These charges  
8 of course, were at the old rates before the  
9 17 per cent increase. Any freight increase is  
10 an extreme hardship to us and further increases  
11 are beyond all reason. We are beginning to  
12 wonder how long it will take to squeeze us out  
13 of business."

14 We submit that this base metal producer is refused access  
15 to world markets by excessive rail charges to the new  
16 inland seaway, built at a cost of hundreds of millions  
17 of dollars of public funds presumably to spur the  
18 economic development of the nation. We urge that rail  
19 transportation rates for primary products in Northwestern  
20 Ontario be on a parity with rates elsewhere in Canada to  
21 enable water shipment to world markets and to encourage  
22 greater development of our mineral resources.

23 38. It is in the iron ore resources of Northwestern  
24 Ontario, however, that the potential of our region is  
25 most clearly discerned. In our view, this largely  
26 untapped treasure is a challenging cry to Government to  
27 pursue with vigor a national economic policy to spur  
28 growth by gearing transport, power, natural gas and  
29 other services to resource development needs. A dynamic  
30 response to an integrated development formula would enrich





1  
2 the national economy, broaden employment and population  
3 and generate immense new volumes of traffic for our rail  
4 carriers.

5 39. Lest the commission suspect us of incubating  
6 a visionary virus, we put on the record the considered  
7 view of top geologists and mining authorities that this  
8 region is capable of producing between 40 and 45 million  
9 tons of iron ore within the next two decades. The  
10 Gordon Commission estimates that in 25 years Canada's total  
11 production of iron ore can rise to 85 million tons  
12 annually. The United States is, and undoubtedly will  
13 continue to be, the largest single market for Canadian  
14 ore. Currently, consumption in the United States  
15 amounts to about 140 million tons of iron ore per year.  
16 It has been forecast that steel output in the U.S. will  
17 increase by 50 per cent in the next 25 years, requiring  
18 210 million tons of iron ore annually. At the same time  
19 it is estimated that iron ore output in the United States  
20 will have declined from the present level to about 115  
21 million tons by 1975 and possibly a further five to 15  
22 per cent by 1980. The United States deficit in iron ore  
23 by 1980, therefore, will be in the order of 100 million  
24 tons a year. This would, in effect mean the importation  
25 of 100 million tons a year in 1980. If Canada were to  
26 share proportionately with other present sources of supply  
27 the Canadian export to the United States might, therefore,  
28 be about 70 million tons a year in 1980.

29 40. The Gordon Commission estimates a threefold  
30 increase in domestic steel output by 1980. If this







1 forecast is realized, say our mining authorities,  
2 Canadian iron ore requirements also would increase about  
3 threefold or to slightly more than 15 million tons  
4 annually. Owing, however, to corporate, geographical  
5 and metallurgical considerations, imports from the United  
6 States to the extent of one-third of Canadian requirements  
7 may continue 25 years hence. Therefore, roughly 10  
8 million tons a year of domestic iron ore would be consumed  
9 by the steel industry of Canada in 1980. The great bulk  
10 of our output consequently must find foreign markets.

11 41. In export markets, Canada has many competitors,  
12 both present and potential, such as the taconites,  
13 jaspers and other beneficiating ores of the United States,  
14 the high-grade direct-shipping ores of Venezuela, Brazil  
15 and Liberia, and in Europe itself. There is no  
16 shortage of iron ore materials in the world as a whole,  
17 although regional shortages exist. Walter Bannister,  
18 Steep Rock Mines Limited executive, observes:

19 "The growth of the iron ore output in Canada  
20 will depend on the continued competitiveness  
21 of the country's ores in American and world  
22 markets."

23 It is superfluous to mention how vital a role is that of  
24 the railways in helping to maintain the competitive  
25 position of our established and prospective producers in  
26 markets already served by low-cost South American and  
27 African iron-ore producing nations.

28 42. Steep Rock Iron Mines Limited is a firmly  
29 established producer on the great Steep Rock Range. The  
30 dramatic saga of diverting rivers and draining lakes to





1  
2 reach the rich high-grade ore is now well known as an  
3 acknowledged engineering triumph. Perhaps less well  
4 known is the early and prolonged struggle to improve its  
5 competitive position. The company enjoys an agreed  
6 charge on ore haul today but during its earlier phases  
7 of development, it suffered from acute disparity in rates  
8 in relation to the Mesabi Range mines, in neighboring  
9 Minnesota. The company tried unsuccessfully over a  
10 protracted period to achieve revision of rates comparable  
11 to Mesabi operations. It is academic to discuss now,  
12 but if the Steep Rock pioneers had been less resolute,  
13 less resourceful and tenacious, the project might have  
14 been abandoned. The flourishing community of Atikokan,  
15 of 7,000 souls, would still be a rail whistle stop and  
16 the transportation systems, lake and rail, would be  
17 minus the more than \$71 million in freight revenue paid  
18 by Steep Rock Iron Mines since operations began. This  
19 mining concern's history is cited only to support our  
20 suggestion to the commission that it give serious con-  
21 sideration to the transportation costs of venture capital  
22 pioneering the development of our natural resources.

23 43. Three major greenstone formations traverse  
24 Northwestern Ontario. One, beginning at Bruce Lake,  
25 proceeds easterly through Lake St. Joseph and on to Lake  
26 Miminiska north and west of Nakina. A middle band of  
27 greenstone crosses from Nakina and Savant Lake generally  
28 along the north line of the Canadian National Railways.  
29 On these two formations the following companies or areas  
30 are active on iron ore properties; Iron Bay, El Sol,







1  
2 Lake Superior Iron, Lake St. Joseph, Savant Lake,  
3 Anaconda, Panther, Can-Fer, Northern Canada. Consulting  
4 geologists estimate that it is conceivable that this area  
5 will produce 24 million tons of iron ore annually. The  
6 south belt of greenstone formation proceeds from the Lake  
7 of the Woods area north of Fort Frances easterly through  
8 Steep Rock, Gunflint, Shebandowan to the Lakehead.

9 The Steep Rock range positively is capable of producing  
10 9 million tons annually and it is estimated that the other  
11 deposits in this belt are capable of an equal production.  
12 This adds up to 42 million tons of annual production  
13 from iron ore bodies already discovered and drilled to  
14 determine approximate tonnage.

15 44. Many of these properties, apart from the high-  
16 grade ores of Steep Rock Range, face complicated problems  
17 of metallurgy and other treatment. Already, however,  
18 research has proven the ores tested thus far amenable to  
19 beneficiation. Anaconda, Can-Fer and Iron Bay companies  
20 are pushing forward with development projects while other  
21 companies have similar plans under way. In addition,  
22 Premium Ores Limited has under serious consideration the  
23 establishment in Northwestern Ontario of a plant to  
24 produce high quality pig iron by direct reduction using  
25 natural gas. If this project is proceeded with, it will  
26 mark a major break-through in the processing of our raw  
27 ore and conceivably could lead to the nucleus of a steel  
28 industry in this mid-section of Canada. It is estimated  
29 that 20 million tons of new production would provide  
30 employment for 12,000 and support a population increase of





1  
2 80,000. An ultimate output of 40-45 million tons  
3 would represent translation of resources into new wealth  
4 at the rate of a half billion dollars annually at present  
5 ore prices and freight revenues in excess of \$75 million  
6 per year for our railways. Observes Neil Edmonstone,  
7 vice-president, Steep Rock Iron Mines Limited:

8 "The cynic can say 'those estimates are for the  
9 birds.' Well, pare them down as much as you  
10 wish - you can't get below the Steep Rock  
11 Range's total of 9 million tons and it is  
12 clearly reasonable to assume that all the other  
13 areas will at least double or treble that  
14 tonnage in due time. Within a few years  
15 Steep Rock Range will be producing \$100 million  
16 of new wealth annually. That should be only  
17 a modest share of Northwestern Ontario's  
18 ultimate total."

19 45. Our mining authorities inform us that while  
20 rail rates on iron ore in Quebec average out between 70  
21 and 80 cents per ton per 100 miles, the rate from Steep  
22 Rock to the Lakehead, a distance of 125 miles, is \$1.42.  
23 The disparity in water shipment rates is even more  
24 acute. The water rate from the Lakehead to Ashtabula,  
25 for example, a distance of 882 miles, is \$2.10 per ton.  
26 From Seven Islands, Quebec, to Montreal, a distance  
27 of 675 miles, the rate is 83 cents. From Seven Islands  
28 to Philadelphia, a distance of 1,312 miles, the rate  
29 is \$1.50. From port Alfred, Quebec, to Hamilton,  
30 Ontario, the rate is \$1.20. We respectfully submit







1  
2 that a more equitable rate structure, rail and water,  
3 is needed if Northwestern Ontario iron ores are to make  
4 a major contribution to the national economy.

5 46. One result is certain. If Canada does not  
6 rise to meet this glittering opportunity, the United  
7 States will have no difficulty in filling its iron ore  
8 requirements elsewhere. As one mining executive has  
9 said, this kind of opportunity never knocks, it whispers.  
10 In export of this great natural resource we have the chance  
11 to redress in large and increasing measure the balance  
12 of trade with the United States. Whether steps toward  
13 the goal are to be ponderous and timid, or dynamic and  
14 rapid, will depend, in our view, on a realistic  
15 reappraisal of the role of transportation as well as other  
16 services in our natural resources development.

17 47. Indeed, in furtherance of national economic  
18 policy, we believe that Canada should be as much con-  
19 cerned with the development of its natural resources as  
20 with the problems of rail transportation. Involving as  
21 it does the haulage of great volumes of bulk commodities,  
22 the growth of the former is likely to mitigate or solve  
23 some of the difficulties of the latter. The institution  
24 of northern development freight rates to spur the use  
25 of our mineral and forest resources in the undeveloped  
26 regions of Northwestern Ontario would seem to merit  
27 consideration. As mentioned, a number of large iron  
28 ore bodies lie north of the main line of the Canadian  
29 National Railways. One of these, in the Lake St.  
30 Joseph area, is a good example. As noted in the annual







1  
2 report of Steep Rock Iron Mines Limited, this property  
3 appears capable of annual production of three million tons  
4 of pellets. President M. S. Fotheringham reported the  
5 project practical and the product marketable provided,  
6 he said, transportation and natural gas services are  
7 offered at reasonable rates. Stating that Canada's  
8 iron ore production could increase to 96 million tons over  
9 the next 20 years and the Canadian share of the United  
10 States market to 80 million tons, Mr. Fotheringham adds:

11 ".... if, as a nation, we want this business,  
12 then it will be necessary for us to decide  
13 now.....

14 To secure and hold this export business which  
15 would be worth at present ore prices, \$900  
16 million annually, the Canadian mining industry  
17 **requires assurances** that present government  
18 policies of encouraging production will continue.  
19 Tax provisions and factors such as shipping  
20 and processing costs, which could price us out  
21 of this lucrative trade, should be subjected  
22 to periodic review."

23 CONCLUSION AND RECOMMENDATIONS

24 48. Frequently throughout the Royal Commission's  
25 hearings, Northern Ontario has been referred to as the  
26 "economic desert" or the "traffic desert", conveying the  
27 impression that this great central part of our country  
28 forever is doomed to remain an unpeopled and unproductive  
29 wasteland. Bridge subsidies of \$7 million are paid on  
30 traffic hauled over it. This assistance does not extend





1  
2 to tonnage into or out of the land bridge area itself  
3 which comprises a large segment of Northwestern Ontario  
4 and includes a number of our pioneering new communities  
5 east of the Lakehead. Rather than denying such aid to  
6 the region, economic development policy should be  
7 directed to fostering its growth and thus generating  
8 traffic for our railways. In his History of Canada,  
9 Stephen Leacock 20 years ago wrote:

10 "Perhaps the brightest page in these.....  
11 annals is the record of discovery and  
12 exploration of the incalculable mineral  
13 wealth of the central wilderness of  
14 Canada between Hudson Bay and the Lakes.  
15 This means far more than the wealth itself,  
16 great though it must be. It removes from  
17 our Commonwealth its fatal geographical  
18 defect of an uninhabited and seemingly worth-  
19 less central area which broke East and West  
20 apart. The touch of King Midas is turning  
21 desolation into fairyland....."

22 If Dr. Leacock's "fairyland" prophecy has not come to  
23 full fruition as yet, we believe we have indicated in  
24 this submission the immense potential of the territory  
25 of which he speaks, as a reservoir of tremendous future  
26 rail and water traffic.

27 49. We have noted the vigorous representations  
28 made by other provinces and regions of Canada for  
29 amelioration of freight rate burdens. Particularly we  
30 have admired the special genius of the Maritimes in







1  
2 articulating the needs of the Atlantic area, comparable  
3 in basic respects with our own. In the clamorous  
4 contention for equality, the just and reasonable needs  
5 of this great central section of Canada have gone unheard  
6 and unheeded. Its promise remains largely unfulfilled.

7 50. While the federal vision focuses on the far  
8 north, Canada possesses in the centre of her domain a  
9 mighty middle empire of resources. The accelerated  
10 development of this raw wealth, it seems to us, merits  
11 serious consideration under any national policy for  
12 economic growth. Other regions of Canada have received  
13 concrete assistance in their development by means of  
14 specific subsidies from the Federal Government for  
15 reductions of freight rates in their respective territories.  
16 There is precedent, therefore, for similar consideration  
17 of the reasonable needs of Northwestern Ontario, as part  
18 of national economic development policy.

19 51. The Northwestern Ontario Development  
20 Association therefore recommends to the Royal Commission  
21 on Transportation that:

- 22 1) The method of obtaining additional rail  
23 revenues by means of horizontal percentage  
24 increases be discontinued.
- 25 2) Intra-regional rates in Northwestern  
26 Ontario be examined with a view to read-  
27 justment in the mutual interests of  
28 railways and shippers.
- 29 3) Development rates be instituted or alter-  
30 natively a development freight rates





1  
2 subsidy for shipments to and from  
3 northern regions based on the principle  
4 underlying other subsidies in effect in  
5 Canada.

6 THE CHAIRMAN: Thank you, Mr. Phillips. You  
7 have given us a very good brief indeed.

8 MR. PHILLIPS: Thank you, sir.

9 THE CHAIRMAN: And we can see that you did a  
10 great deal of work on this and it would be too bad if  
11 the Commission missed anything.

12 MR. PHILLIPS: Well, I omitted one reference  
13 in the introduction, and that reference, Mr. Chairman,  
14 was that I am bound frankly to admit a lack of expert  
15 knowledge of the complexities of the Canadian freight rate  
16 structure. Our comprehension of this complicated  
17 subject is that of ordinary laymen. Our association does  
18 not possess the resources to retain and be represented  
19 here by a consulting economist authoritative in the field  
20 of transportation. So what we have tried to do, sir,  
21 is to give you the considered views of those industries  
22 and the people who have been exposed to the freight rate  
23 structure and in that sense compress them into one brief.

24 THE CHAIRMAN: I think you have satisfied us  
25 about the position taken in Northwestern Ontario, and  
26 you have told us the story in that connection.

27 Mr. Cumming?

28 MR. CUMMING: I have just a couple of points  
29 I would like to discuss with Mr. Phillips.  
30





1  
2 ---CROSS-EXAMINATION BY MR. CUMMING:

3 Q. Mr. Phillips, you have outlined in your  
4 brief what you consider the many problems in your area  
5 resulting from the impact of horizontal increases, and  
6 your first recommendation on Page 46 of your brief is  
7 that the method of obtaining additional rail revenues by  
8 means of horizontal percentage increases be discontinued.  
9 I was wondering if your organization had any specific  
10 suggestions to make to the Commission as to what methods  
11 of raising additional rail revenues might be used in  
12 place of horizontal rate increases?

13 A. It would definitely seem to us to be a  
14 far fairer method to base any increase on tonnage rather  
15 than the existing rates. The differential becomes  
16 progressively greater between an area paying higher rates  
17 than an area paying lower rates.

18 Q. Do you feel there should be maximum hold  
19 downs involved?

20 A. I don't think I am competent to answer that.

21 Q. And in the third recommendation you  
22 suggest that development freight rate subsidies be  
23 provided. I was wondering if you had considered along  
24 that general line the possibility of direct subsidies to  
25 the industries affected, or do you think the problems  
26 can be better resolved through rail transportation  
27 assistance alone?

28 A. I believe we have a country that is un-  
29 developed today, that it has most of the resources that  
30 the world needs and that these resources can be produced,







1  
2 can be developed and the national economic policy of  
3 this country furthered if reasonable rates can be worked  
4 out to make that kind of development possible. I  
5 realize it is a subject beyond me.

6 Q. The problem that is hindering your  
7 development is the matter of transportation costs.  
8 Given a solution to that, the development, in your view,  
9 would progress?

10 A. I think it might be safely said it is a  
11 major factor.

12 THE CHAIRMAN: Mr. Sinclair?

13 MR. SINCLAIR: Mr. Burbidge is going to ask  
14 questions.

15 CROSS-EXAMINATION BY MR. BURBIDGE:

16 Q. Mr. Phillips, towards the second part of  
17 your brief, you dealt with the mining industry, and on  
18 Page 43 you are quoting a letter of Mr. Fotheringham in  
19 which he mentions tax provisions in connection with the  
20 mining industry. I have made a list of the taxes in-  
21 volved, and I will put them to you to see if you agree  
22 with them. In the first place, mining companies may  
23 deduct exploration, prospecting and development expenses;  
24 secondly, they are exempt from income tax for three years  
25 from commencement of production; thirdly, they are  
26 entitled to depletion allowance of 33-1/3 per cent of  
27 the profits, or, if the production happens to be from  
28 gold and the value of the gold production is more than  
29 70 per cent, instead of 33-1/3 per cent, the depletion  
30





1  
2 allowance is 40 per cent or \$4.00 per ounce; fourthly,  
3 they are entitled to deduct for mining taxes on income  
4 paid to a province or municipality; and, fifthly, the  
5 shareholders are entitled to a depletion allowance.

6 Would you say that was a complete statement of the  
7 tax concessions to a mining company?

8 A. I would say so.

9 Q. Do you know of any other concessions?

10 A. I do not.

11 Q. Do you think that that right to deduct  
12 these expenses is the reason underlying the loss reported  
13 by Willroy on page 36 of your brief?

14 A. That I do not know. I believe all those  
15 methods of assistance are good, because they are  
16 converting our natural wealth which has no value under  
17 present circumstances into such things as opportunity and  
18 payroll for our people.







1  
2 Q. Wouldn't you agree those are pretty  
3 generous concessions?

4 A. Well, I think perhaps it is relative.

5 Q. Do you agree with the method used here,  
6 the method of concessions to these industries by way of  
7 the Income Tax Act, is a proper method, or a good  
8 method?

9 A. I think every new natural resource industry  
10 has got to have all the assistance it can get to get  
11 established.

12 Q. Do you agree with the principle of giving  
13 the assistance directly to the industry you propose to  
14 assist, as is done through the Income Tax Act?

15 A. I don't think I am competent to answer.

16 Q. Here you have given assistance by way of,  
17 for instance, the industry does not have to pay income  
18 tax -- that is directly to Willroy or Steep Rock. Do  
19 you think that is a good idea?

20 A. Yes.

21 Q. In other words, to give the assistance  
22 directly to the industry is a good idea?

23 A. Yes, unless a better idea comes along.

24 Q. I take it that the position of the  
25 association is that it is in the interests of the Canadian  
26 economy that railways should be financially sound; is  
27 that correct?

28 A. I thoroughly agree.

29 Q. And that it follows from that that rates  
30 should be compensatory? I think you touch on that on





1  
2 Page 24 of your brief?

3 A. Yes.

4 Q. You state at Page 20, paragraph 24:

5 "....compensatory rates are a simple necessity  
6 if railways are to operate efficiently and  
7 ensure a reasonable profit return...".

8 That is the position of the association, isn't it?

9 A. Yes.

10 Q. Referring to Page 11, paragraph 14, you  
11 say that the association is concerned primarily with  
12 Clause (a) of the Order in Council dealing with inequities  
13 in the freight rate structure, their incidence upon the  
14 various regions of Canada and the legislative and other  
15 changes that can and should be made in furtherance of  
16 national economic policy to remove or alleviate such  
17 inequities: that is the position of the association;  
18 is that correct?

19 A. Yes.

20 Q. That is the point in the Order in Council  
21 that you are primarily concerned with?

22 A. Yes.

23 Q. You know it is an established principle  
24 of rate making that the railways can meet competition or  
25 not as they see fit? Are you familiar with that?

26 A. Not too familiar with it, no.

27 Q. You are apparently familiar with the fact  
28 that it is no part of railway freight making to equalize  
29 geographical disadvantages. You mention that at Page 9,  
30 paragraph 11?





1  
2 A. Yes.

3 Q. You are familiar with the fact that that  
4 is an established principle of rate making, that rail-  
5 ways do not have to make rates that will equalize the  
6 geographical areas of Canada; do you agree with that  
7 principle?

8 A. No, I do not. I believe that a country  
9 like Canada, which is spread right across the continent,  
10 has got to take into consideration the economic needs of  
11 the various areas.

12 Q. Would you say that would apply to freight  
13 rates?

14 A. How else is our country to develop?

15 Q. Do you mean industries, no matter where  
16 they are located, competing in a common market are to  
17 have the same freight rate?

18 A. No, I don't say that.

19 Q. Perhaps you didn't understand my question.  
20 My question was, that it is a principle of rate making  
21 that railways in making freight rates are not required to  
22 equalize geographical disadvantages; do you agree with  
23 that?

24 A. I do not agree with it.

25 Q. What do you suggest?

26 A. I believe an area like Northwestern  
27 Ontario is entitled to equality with other sections of  
28 this country in its transportation costs.

29 Q. Is it entitled to preference?

30 A. No. We merely want our natural advantages







1  
2 recognized.

3 Q. But not your disadvantages?

4 A. We see where the Maritimes, themselves,  
5 enjoy a 30 per cent differential with regard to the rest  
6 of the country.

7 Q. Let us turn to your developmental rates  
8 proposal, and I suppose that is what you are speaking  
9 of when you say you want some freight rate assistance in  
10 this area -- developmental rates?

11 A. Well, we believe that reasonable develop-  
12 ment rates on our natural resources would stimulate  
13 expansion of our forest products industry and our mining  
14 industry to the extent the railways themselves would  
15 generate greater volumes of traffic and hence greater  
16 revenues.

17 Q. On Page 5 you talk about the freight rate  
18 structure, in paragraph 6, that will enable our  
19 railways to function at maximum effect as a developmental  
20 force in the furtherance of national policy, and then  
21 on Page 30, paragraph 30, you quote a letter from a  
22 company spokesman in which the company spokesman submitted  
23 that the Northwestern Ontario area should receive special  
24 consideration so that the manufacturing industries so  
25 vital to the economy of the area will not be handicapped  
26 more than they are now or even forced to close down, and  
27 then at Page 42, paragraph 47, you speak of the  
28 institution of northern development freight rates to spur  
29 the use of our mineral and forest resources: really  
30 what you are asking for is for special assistance to this area





1

2 through the freight rate structure; is that right?

3 A. We would be delighted to receive it.

4 Q. Is that what you are asking for?

5 A. We believe that our natural resource  
6 industries are entitled to reasonable rates.

7 Q. To reasonable rates?

8 A. What a reasonable rates is for that  
9 industry, I imagine, would have to be determined by this  
10 Commission.

11 Q. Is it in your mind that this reasonable  
12 rate is something less than it might otherwise be because  
13 of the circumstances found in Northwestern Ontario?

14 A. The original experience of Steep Rock was  
15 that they were paying more than their competitors under  
16 comparable conditions.

17 Q. Would you extend the assistance you  
18 propose only to new industries?

19 A. Well, that is a general statement. I  
20 believe those industries that have pioneered our natural  
21 resources industries are certainly entitled to the same  
22 consideration as new industries.

23 Q. When you refer to the development rate,  
24 when does a development cease to occur? When do you  
25 know that the area has been developed?

26 A. I don't think we will ever know that in  
27 connection with Northwestern Ontario, because the biggest  
28 iron, copper, zinc or gold mine in the history of  
29 Canada might be discovered next Tuesday at 2 o'clock in  
30 the afternoon.







1  
2 Q. Yes, but I asked you, these special  
3 rates would apply only to new industries, and you said,  
4 no, you thought the people who had pioneered should  
5 get them too. When does an industry cease to be a  
6 pioneer -- when does it cease to be a developer?

7 A. I think our natural resource industries  
8 will be pioneering in the Northwest for a long time to  
9 come.

10 Q. In other words these development rates  
11 you propose are a permanent thing?

12 A. I don't see why they could not be placed  
13 on a permanent basis, particularly if they are going to  
14 have as their end result the greater development of this  
15 part of Canada which, in turn, is going to stimulate  
16 and generate more traffic revenue for our carriers.

17 Q. When Mr. George Paul was presenting the  
18 submission of the Canadian Manufacturers Association to  
19 this Commission he said that it was the view of the  
20 Canadian Manufacturing Association that freight rates  
21 would appear to afford an inefficient vehicle for dis-  
22 tributing economic assistance to those it is deemed to be  
23 in the national interest to subsidize: would you agree  
24 with that?

25 A. I didn't quite get that.

26 Q. He said freight rates would appear to  
27 afford an inefficient vehicle for distributing economic  
28 assistance to those whom it is deemed to be in the  
29 national interest to subsidize, that they should only  
30 be used when no other measure of assistance was available;





1  
2 do you agree with Mr. Paul?

3 A. No, I believe our railroads are absolutely  
4 vital to the continued development and expansion ---.

5 Q. No, he didn't mean that. He meant, if  
6 you want to give assistance to an industry or an area  
7 you should not use the freight rate structure unless  
8 there was no other way of doing it.

9 A. Is he talking in terms of a national  
10 subsidy?

11 Q. He is talking in terms of developing an  
12 area, and if you want to develop the area, the freight  
13 rate structure is an inefficient vehicle. That is the  
14 view of the Canadian Manufacturers Association. Would  
15 your association agree with that?

16 A. I would have to answer personally, and I  
17 do not know. I am not sufficiently competent.

18 Q. You are familiar with the construction by  
19 Canadian Pacific of a branch line to serve Geco Mining Co.  
20 and Willroy Mines?

21 A. Yes.

22 Q. And you are familiar with other branch  
23 lines that have been built by Canadian Pacific and Canadian  
24 National?

25 A. Yes.

26 Q. Would you not agree that procedure  
27 adequately meets the needs of industry in developing  
28 new areas?

29 A. The mere provision of a railroad line?

30 Q. The provision of a railroad line when the





1  
2 area is ripe for development?

3 A. Yes. I can't see where you can go  
4 pushing railroad lines into areas in the country that  
5 perhaps are not potential profitable in the way of  
6 future revenues. There should certainly be some  
7 favourable indication of potential development before  
8 construction of branch lines. It seems only reasonable.

9 Q. At Page 9, paragraph 11, you refer to  
10 development being stymied by distortions in the freight  
11 rate structure where statutory provisions do not apply,  
12 and at the top of Page 11, paragraph 13, where you are  
13 quoting from the submission of the Government of Ontario,  
14 you state there that the Government of Ontario is speaking  
15 of railways having freedom of action only in respect of  
16 a portion of their total rate structure. I assume the  
17 references are to the rates on grain and grain products  
18 moving to export positions in Western Canada; is that  
19 correct?

20 A. It would appear so.

21 Q. Is it the position of the association that  
22 the burdens which those rates impose on the railway and  
23 other shippers should be eliminated?

24 A. The grain rates?

25 Q. Yes.

26 A. The Crow's Nest Rates?

27 Q. Yes -- the burden of those rates?

28 A. That is a controversial point with which  
29 I am not too familiar.

30 Q. Does the association take any position on







1  
2 it?

3 A. The association takes no position on it.

4 Q. Would you agree with me, whether you take  
5 a position or not, that these statutory rates are the  
6 distortions you are referring to on page 9?

7 A. By no means.

8 Q. What are the distortions you are referring  
9 to?

10 A. Well, we make reference in the case of  
11 our forest products industry -- which I did not read out  
12 ---.

13 Q. Are you talking about the straight ---.

14 A. Increases.

15 Q. Well, the individual rates you developed  
16 later in your brief?

17 A. Some of these rates have been increased  
18 threefold.

19 Q. But is that what you are talking about  
20 when you are talking about distortions -- the individual  
21 rates?

22 A. They are distorted in the sense they are  
23 not equitable with rates applying in other parts of our  
24 country.

25 Q. That is what you understand by "inequity"?

26 A. Yes, that is my understanding.

27 Q. In other words, what you are saying is  
28 that rate differences make an inequity?

29 A. Well, it depends on distances.

30 Q. Pardon?





1  
2 A. It depends on a number of factors.

3 Q. What factors?

4 A. Our pulp wood haul has tremendously  
5 decreased because our pulp wood companies have been un-  
6 able to meet the kind of increases coming in, and they  
7 have developed other methods.

8 Q. I am going to discuss that in a minute,  
9 but is it your view there is an inequity where there is  
10 a difference in rates?

11 A. No, that would not necessarily be one.

12 Q. What do you mean by "inequities" then?

13 A. If we can't compete in the Eastern markets  
14 with people who are thousands of miles to the west of  
15 us, doesn't that seem an inequitable situation?

16 Q. Can you give me an example of that?

17 A. We had a plywood mill established at  
18 Nipigon, and those various rate increases brought that  
19 mill to the point where they were paying practically as  
20 much to get its product into Toronto as mills in British  
21 Columbia. Isn't that rate distorted so far as we are  
22 concerned?

23 Q. That brings me to the point where you said  
24 you have not expressed an opinion. I said to you,  
25 wouldn't you agree that it is an established principle  
26 of rate making that railways can make rates to meet  
27 competition if they wish or not, and you said you have  
28 not expressed an opinion, but if rates turn on competition  
29 between certain areas -- there is no competition between  
30 other areas -- then, in your view is that an inequity?







1  
2 A. Well, I think it is an inequity where an  
3 industry is unable to compete on favourable terms with  
4 another industry because of its transportation problems.

5 Q. And if the transportation problems are  
6 a consequence of competition to which the particular  
7 industry you are referring to is not subject, then you  
8 say that is an inequity?

9 A. If you have a large industry in British  
10 Columbia which is unable to obtain an agreed charge and  
11 thereby compete in an eastern market with a Northwestern  
12 Ontario firm which cannot get those favourable terms,  
13 isn't that a distortion or an inequity for our local  
14 company? In my view it is.

15 Q. If the reason for the agreed charge is  
16 competition between the west coast and the east, and  
17 there is no similar competition between Northwestern  
18 Ontario and the east, and the rates turn on the question  
19 of competition, then, in your view, does that create  
20 an inequity?

21 A. It does. I believe there should be some  
22 consideration for our smaller industries which are  
23 endeavouring to get established.

24 Q. Turning to some of these specific rate  
25 problems, on Page 13 you quote the letter of a Lakehead  
26 food brokerage firm who says that you can ship pickles  
27 from Toronto to Winnipeg in the summer at \$1.57, and in  
28 the winter at \$1.65, and that when he wants to ship  
29 pickles from Fort William to Kenora, the best rate he  
30 can get is \$1.85. We have been unable to check this





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\$1.85 rate, but my information is that the rate would  
be 75 cents, and the tariff item is Item 4490 C.P.W.975?

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1 A. This broker has been in business at the  
2 Lakehead for 30 or 40 years that I know of. He is a  
3 man of integrity and he should know his business, and  
4 naturally we accepted on good faith the figures he  
5 supplied to us.

6 Q. There seems to be some misunderstanding  
7 there, because certainly the rate of 75 cents is open  
8 to him. Do you wish to disclose the names of these  
9 people you refer to in your brief?

10 THE CHAIRMAN: I don't think you should ask  
11 that, Mr. Burbidge.

12 COMMISSIONER MANN: That rate you quoted is  
13 a competitive rate?

14 MR. BURBIDGE: No, I don't think it is a  
15 competitive rate.

16 COMMISSIONER MANN: C.P.W.975

17 MR. BURBIDGE: I couldn't tell you, Commissioner  
18 Mann, but I don't think it is.

19 MR. SINCLAIR: It is a special commodity rate.

20 MR. BURBIDGE: Q. I don't intend to go  
21 through all of these, Mr. Phillips --.

22 A. I believe some of these rates have been  
23 altered since this brief was written. I have been  
24 informed that some of these rates have been revised, I  
25 think in one or two instances downward.

26 Q. Now, on Pages 16 and 17, you are  
27 speaking of a forest products plant that is in competition  
28 with British Columbia plywood?

29 A. Yes.  
30







1  
2 Q. Now, the present rate on plywood from  
3 Fort William to Montreal is \$1.26 - that is what the  
4 shipper pays - compared with rates from Vancouver to  
5 Toronto of \$1.83 or to Montreal of \$1.86. So that the  
6 local industry is not at a disadvantage as against  
7 Vancouver.

8 A. There is another instance of a company  
9 which sees an opportunity of establishing an industry.  
10 They consider all the factors, they look favourable,  
11 they get their plant into production. It is just \$300,000  
12 or \$400,000.00, but that, nevertheless, makes a  
13 substantial little plant, and then they begin to be hit  
14 by successive horizontal percentage increases, and that  
15 is a tough proposition for a company to face up to.

16 Q. It is a tough proposition for anybody to  
17 meet increased costs, but the railways are not exempt  
18 from them as well.

19 A. They point out that the percentage increase  
20 was made not to apply to the B.C. industry.

21 Q. I think that arises out of a misunderstanding  
22 ing on these rates from British Columbia on plywood,  
23 because they are based on rate increases in the United  
24 States and they are not affected by the horizontal  
25 increases in Canada.

26 A. But that doesn't help the situation of  
27 your local industry which has to compete in the same  
28 market.

29 Q. The rates on the plywood from British  
30 Columbia did go up: they went up in December, 1950, by





1  
2 5 per cent, maximum 6 cents; they went up on August  
3 26th, 1957, by 12 per cent, maximum 12 cents, and  
4 effective February 15th, 1958, they were increased  
5 again by 2 per cent, and during this period the rates  
6 from Fort William to Ontario points were not similarly  
7 increased. The rates from Fort William to Ontario  
8 points were not increased during that same period, and  
9 what I am suggesting, Mr. Phillips, is that right now  
10 the rates on plywood are \$1.26, as compared to the rates  
11 from Vancouver to Toronto of \$1.83 or to Montreal of  
12 \$1.86, but your local man is not at a disadvantage.

13 MR. MAURO: I wonder if Mr. Burbidge would  
14 put on the record the accumulative increase from 1945?

15 MR. SINCLAIR: I think perhaps I should like  
16 to say to the Commission that Mr. Mauro possibly wants  
17 to learn something about lumber rates, and it is all in  
18 the records and I don't think this is the time to go into  
19 it. We will be very glad to give him and to give the  
20 Commission the indications as to where the full story of  
21 the lumber rates down through the years may be found,  
22 and these lumber rates are a matter which is within the  
23 exclusive jurisdiction of the Board and, therefore, out-  
24 side the jurisdiction of this Commission in accordance  
25 with the specific rates that were referred to in a  
26 number of instances.

27 MR. MAURO: My learned friend was introducing  
28 this subject to the witness and made reference to in-  
29 creases on the Vancouver rates, and I suggest in  
30 fairness he should now put on the record the accumulative







1  
2 effect of those rates from Fort William to Toronto.

3 MR. SINCLAIR: It will be recalled, Mr.  
4 Chairman, that when the Canadian increases were less  
5 than the American increases the lumber industry fought  
6 to have the Canadian increases apply, but when the  
7 situation reversed the lumber industry took the contrary  
8 position, and as a result the lumber tariffs became in  
9 quite a confused state, and the Board held special  
10 hearings and a new scale on lumber was introduced. Then,  
11 the whole question of equalization of those scales arose  
12 and the Board held it was not proper to do it, and then  
13 there was the removal which was pressed for by certain  
14 people which resulted in lumber rates going up. The  
15 lumber rates have not had a base or have had applied to that  
16 base any specific groups of increases because as they went  
17 up there adjustment to the scale and the rates that are  
18 now in effect have been given to you by my confrere,  
19 Mr. Burbidge. They indicate the local geographic  
20 advantage being reflected to some degree in the rates.

21 THE CHAIRMAN: Well, Mr. Sinclair, the  
22 question has been raised and I think it can be answered  
23 by a simple answer, and I would suggest, bearing in  
24 mind the question that has been put, we should have a  
25 reply.

26 MR. SINCLAIR: All I can suggest is that we  
27 give Mr. Mauro the reference and let him work out the  
28 answers.

29 MR. MAURO: You made the investigation.

30 MR. SINCLAIR: There is a local advantage to





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2 be applied.

3 THE CHAIRMAN: We will come back at 2 o'clock.

4

--- ADJOURNMENT FOR LUNCH

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--On resuming at 2:00 p.m.

THE CHAIRMAN: Order, please.

MR. BURBIDGE: Have you any submissions, on the question put by Mr. Mauro?

MR. SINCLAIR: My friend says possibly I can answer that, Mr. Chairman, with your permission, and our position is abundantly clear that the lumber rates from the west coast and the interior have all been matters before the board, and the question put by Mr. Mauro was, what was the percentage increase? Well, these rates have been increased with American increases pursuant to an arrangement, as I said before lunch, between the lumber industry of the west coast and the railways, and it was approved by Mr. Justice Kearney, and a special judgment was written in regard to it.

THE CHAIRMAN: Well, I don't think we need argue it at all now. You are quite right; this commission has no jurisdiction over things at all. I think there may be a simple answer as to what the rate was, in each case in 1948 and what it is now, because as I understood the question it was directed to saying that there was an inequity in the structure. The Board of Transport Commissioners may be perfectly correct in what it does, and it is a very complex question, and I realize that, but the witness is simply alleging an inequity, and it seems so to be supported by the question.

MR. MAURO: The matter would not have been raised at all except that my learned friend Mr. Burbidge in cross-examining the witness pointed out the fact that rates from Vancouver had taken a particular increase.







1 THE CHAIRMAN: Yes; well we can get the  
2 information.

3 MR. SINCLAIR: The main point of the question  
4 put to the witness was the suggestion is made in the  
5 brief that plywood manufactured at the Lakehead would  
6 suffer some disadvantage in shipping to eastern markets,  
7 transportation-wise, as against west coast shippers of  
8 plywood. My confrere put to the witness the rates as they  
9 exist today to show that there is not a transportation  
10 disadvantage at the lake head.

11 THE CHAIRMAN: Well, you have been long enough  
12 at the Bar to know that one question leads to another.

13 MR. SINCLAIR: Yes, and I would be very happy to  
14 deal with the lumber rates to whatever extent the  
15 commission wishes us to do so, but the point -- and I  
16 think the only point -- is that the basis of the  
17 examination of my confrere was to show that transportation  
18 per se was not the difficulty for the plywood industry  
19 in meeting west coast competition in the markets of  
20 Montreal and Toronto.

21 THE CHAIRMAN: I think Mr. Burbidge can now  
22 pass on to another question as we know what is being  
23 sought by the witness and we can get the information  
24 ourselves.

25 MR. SINCLAIR: Thank you, sir.

26 CROSS-EXAMINATION BY MR. BURBIDGE (CONTINUED)

27 Q. Mr. Phillips, on Pages 19 to 29 you  
28 deal with the question of plywood rates. Before discussing  
29 that, would you agree with me that the pulp and paper  
30 industry can scarcely be described as a depressed industry.





1  
2 in Canada today, can it?

3 A. That might hold good in the industry  
4 generally, but I think it was brought to the attention  
5 of the Commission earlier today that the forest  
6 products industry in Northwestern Ontario is generally  
7 acknowledged to be the highest cost segment of the  
8 industry.

9 Q. Those were costs of production that  
10 were mentioned?

11 A. Yes.

12 Q. They were not transportation rates?

13 A. Well, transportation would certainly  
14 come into the picture where they are rail-hauling wood.

15 Q. He was talking about the cost of  
16 production -- labour costs and matters of that kind.  
17 In any event, the average person would not describe  
18 the pulp and paper industry as a depressed industry,  
19 would they? You would not?

20 A. At the moment, no.

21 Q. And the pulp and paper industry has  
22 difficulties in addition to rates on pulpwood; it has  
23 a discount on American dollars; isn't that right?

24 A. Yes.

25 Q. And foreign competition?

26 A. Yes.

27 Q. And it has labour costs. You mentioned  
28 all these points yourself in your brief at pages 27  
29 and 28. So that, pulpwood rates are not the only  
30 problem of the pulp and paper industry?

A. No, I don't think there was any intention







Phillips Cross-examination  
(Burbidge)

of suggesting that they were.

Q. Are you aware the whole matter of pulp-wood rates was before the Board of Transport Commissioners recently?

A. I was not, sir.

Q. The whole question was considered by the Board of Transport Commissioners.

A. On a national basis?

Q. Yes, and a problem involving the equalization of pulp-wood rates, and the board issued its decision on March the 31st 1960. You are not familiar with that decision?

A. No.

Q. In that decision the board prescribed an equalized commodity basis on rates but held that because of the effect of the Freight Rate Reduction Act it was not going to bring that decision into force, and in doing so, it referred to pulp-wood rates as sub-normal rates; at the present time they said the rates were sub-normal rates. You have mentioned earlier some of these rates may have been adjusted since your brief was written?

A. I did.

Q. I am informed that Canadian Pacific recently negotiated rates on pulp-wood from stations in Ontario to Kenora with the Ontario Minnesota Pulp and Paper Company which rates are effective November the 2nd 1959. Were you aware of those rates?

A. No.





1 Q. Those rates are published on a mileage  
2 scale, and representative rates are  $8\frac{1}{2}$  cents to 60 miles;  
3  $9\frac{1}{2}$  cents, 61 to 150 miles; 13 cents, 151 to 200 miles,  
4 and then the scale goes on up.

5 A. I think the point our forest products  
6 industry makes is that while their wood costs have, for  
7 various species of wood, approximately doubled in the  
8 past ten years their transportation costs have about  
9 trebled -- and their transportation costs have gone up  
10 faster and higher than the other costs in connection  
11 with their raw wood production.

12 Q. But the fact is, notwithstanding going  
13 up that much, the board is still describing these pulp-  
14 wood rates as sub-normal.

15 A. Do they mean they are not compensatory?

16 Q. No, but they are still sub-normal in  
17 view of the equalized scale, and I am informed Canadian  
18 Pacific has offered the same basis of rates to other  
19 receiving points in this area which they negotiated  
20 effective November 1959 with the Kenora Mill.

21 Mr. Phillips, in answering a question for  
22 Mr. Cumming, you said with respect to horizontal increases  
23 you proposed a tonnage basis. You described it as a  
24 tonnage basis: did you mean a flat cents per 100 pounds  
25 basis?

26 A. Well, we feel that these horizontal  
27 price increases is like making one customer of your rate  
28 organization pay one price and another customer another  
29 price, and certainly that is to the disadvantage of one.  
30





Phillips Cross-examination  
(Burbidge)

Q. You were asked by Mr. Cumming on what other basis than a percentage increase you would raise rail revenue?

A. Well, what about the cost of service or the hundredweight basis I have seen references to.

Q. Is that the basis you meant when you said on a tonnage basis?

A. I have to plead ignorance of many of these finer points of railway operations. Certainly we feel that the present system of horizontal price increases which affect only part of your customers is certainly unfair to them.

Q. Well, first of all, if you apply a flat cent per hundred pounds, which I thought you meant by a tonnage basis, the short haul shipper like the plywood shipper or the shipper of a heavily loading low value commodity is going to bear a disproportionate share. Have you considered that?

A. No I haven't considered that.

Q. On page 35 you refer to  $5\frac{1}{2}$  cents from Willroy to the Lakehead?

A. Yes.

Q. I am informed that that rate was a proportionnal rate to the Lakehead applicable on traffic for furtherance by water to La Salle, Illinois, and was published pending negotiations with United States Lines on through rates. When the through rates were published, that proportionnal rate was cancelled and that







Phillips Cross-examination  
(Burbidge)

was October 27th 1958, and there is now a through rate of \$12.00 a ton published to LaSalle, Illinois, which works out at approximately 1 cent a ton mile. I would assume, therefore, that that through rate now is quite satisfactory to Willroy; would you agree?

A. They are not shipping into the waterway.

Q. But that is a through rail rate--- \$12.00 a ton and they were complaining that \$5.10 a ton rate worked out to 1.8 cents per net ton mile?

A. Yes, Is this a new rate given to them?

Q. It has been in effect since 1958 -- 1.1 cent.

A. In this case, as in all the others, these rates are given to us by the people who have been exposed to them, and we accept them as authentic and given to us in goodwill.

Q. I am not questioning that at all. All I am saying is that I think the facts are that that rate you quote in your brief was cancelled in October 1958 and is now a through rate which works out at approximately 1 cent a ton mile which should satisfy Willroy. You also discuss rates on iron ore at page 41, paragraph 45, and you speak of the mining authorities informing you that rail rates on iron ore in Quebec average out between 70 and 80 cents per ton 100 miles ---

MR. MAURO: Excuse me; just so it is clear I think the point Mr. Phillips makes in the brief is that the rate to the Lakehead works out to 1.8 cents





Phillips Cross-examination  
(Burbidge)

per net ton mile. The rate to La Salle in the brief is 1.1 cents per ton mile. I wonder in that new rate published in 1958 whether the rate to the Lakehead was reduced to 1.1?

MR. BURBIDGE: It is the through rate and it works out to 1.1.

MR. MAURO: To the Lakehead?

MR. BURBIDGE: No, to La Salle.

MR. MAURO: Well, is it the same rate to the Lakehead?

MR. BURBIDGE: Well, we would not short haul ourselves. The rate to LaSalle, Illinois is that rate that works out to 1.1.

MR. MAURO: So, the brief is correct, that it is a rate of 1.8 to the Lakehead.

MR. BURBIDGE: There is no rate to the Lakehead.

MR. SINCLAIR: Well, we could cross-examine Mr. Mauro at a later date.

MR. MAURO: Well, let us have the record clear.

MR. PHILLIPS: Willroy has certainly expressed a desire to use the seaway facilities to get their product overseas into Belgium and those countries. They feel being tied to the American market only certainly is a hazard to the stability of the mining operation, and they would very much like to do some shipping via water.







1 Q. Now, Mr. Phillips, the rates on iron  
2 ore, and in paragraph 45 you say that the mining  
3 authorities say they work out to 70 or 80 cents a ton.  
4 My information is that Canadian Pacific has a rate  
5 from Wyman-Hamilton at three dollars a gross ton, a  
6 distance of 330 miles, so that the revenue per ton  
7 mile is 1.17. That is a rate in the Quebec-Ontario area.  
8 Have you any comment to make on that?

9 A. That is a little higher than these,  
10 is it not?

11 Q. The complaint here is that the rates  
12 in Quebec are lower than the rates from Steep Rock?

13 A. Yes, that is the information given to  
14 us.

15 Q. And I am saying that the only rate I  
16 have knowledge of, Canadian Pacific rate, is one  
17 which is on the basis of 1.17, higher than you have here.

18 Now, then, in paragraph 48, page 44, you  
19 referred to - you say that this area has been referred  
20 to as an "economic desert" or "traffic desert". Canadian  
21 Pacific doesn't regard this as any sort of a desert,  
22 and Canadian Pacific shares the conviction that this  
23 territory will continue its development. Would you  
24 not agree that if the area is to develop in the best  
25 way it should proceed on an orderly basis of development?

26 A. I am very gratified to hear this  
27 expression from you, and I think that northwestern  
28 Ontario would be prepared for a little bit of disorderli-  
29 ness even if we could get some stimulation to our develop-  
30 ment.





1 Q. Don't you think that development has to  
2 proceed having regard to all the factors, cost of  
3 capital, availability of markets, and things of that  
4 sort?

5 A. Indeed; I wouldn't attempt to refute  
6 that.

7 Q. In other words, it should proceed on  
8 an orderly basis.

9 MR. BURBIDGE: That is all, Mr. Chairman.

10 THE CHAIRMAN: Mr. MacDougall?

11 CROSS-EXAMINATION BY MR. MacDOUGALL:

12 Q. My name is MacDougall and I represent  
13 Canadian National.

14 You were speaking to my friend, Mr. Burbidge,  
15 on the question of horizontal percentage increases,  
16 and you suggested that your area might be better served  
17 if the increases in freight rates were applied in  
18 cents per hundred pounds. Did you have an idea that  
19 there would be application of cents per hundred pounds  
20 throughout the whole system equally to every rate or  
21 selected commodities?

22 A. I must plead lack of knowledge of that  
23 kind. Certainly, however, we feel that the present  
24 system is not one conducive to stimulation to economic  
25 development of our country where part of your customers  
26 pay the shot and the others get off with an agreed  
27 charge.

28 Q. Your view is that the man who is  
29 hauling something a shorter distance than another man  
30





1 competing in the same market should pay a lesser  
2 rate?

3 A. I think that our rate structure should  
4 be one which is designed to accelerate the development  
5 of our country. How that is to be worked out -- I  
6 suppose most of these things have to be considered  
7 in the light of their own special circumstances.

8 Q. You are not suggesting, though, that  
9 the effect of competitive rates, wherever they exist,  
10 shouldn't be taken into account in making freight rates?

11 A. I suppose that is one of the hard  
12 economic facts of life, but it is certainly one, I  
13 think, which retards the general development of our  
14 country.

15 Q. You would like to see it on a straight  
16 mile for mile payment for services performed but because  
17 of the composition of making up rates it sometimes  
18 creates these anomalies that impose a burden in north-  
19 western Ontario?

20 A. Perhaps that is right.

21 Q. On page 39 there is a reference to the  
22 Steep Rock situation, and in paragraph 42 you say:  
23 "The company enjoys an agreed charge on ore haul today  
24 but during its earlier phases of development..." etc.

25 My information is that there is no agreed  
26 charge on iron ore; it is a published open tariff, as  
27 we call it, and you may have used that word inadvertantly?

28 A. All right, sir.

29 Q. I think also you will remember and agree with  
30 me that the rate which is in effect for the iron ore







1 was as a result of pretty hard bargaining between  
2 Canadian National and Steep Rock?

3 A. I believe so.

4 Q. I don't know whether you are aware or  
5 not, but in the waybill analysis prepared for the  
6 Board in 1958, on page 19, the average revenue per ton  
7 mile for the western to western movement was .91 cents  
8 per ton mile, and comparing that with the average of  
9 1.6, your average is somewhat lower than the national  
10 average?

11 A. I am glad to hear it.

12 Q. So it is a pretty low rate?

13 A. That, I suppose, is one of the results  
14 of the tough bargaining that Steep Rock can do at  
15 times.

16 Q. As to your discussion with Mr. Burbidge  
17 about your desire to have developed rates, you would  
18 agree that whatever rate was set up the rate should  
19 be on a compensatory basis, giving a fair return to the  
20 railroad and which in turn would be a fair and reasonable  
21 rate to the industry concerned?

22 A. Yes.

23 Q. It is a matter of determining what is  
24 a reasonable rate to the industry. That, you agree with  
25 me, is a problem which usually goes before the Board of  
26 Transport Commissioners if people feel they are being  
27 hard done by?

28 A. Just the same as the railroads feel  
29 the right to flourish, other industries have similar  
30 factors on their side in their desire to flourish.





1  
2 Q. One other point on page 14, paragraph 17.

3 You are referring there to rates on newsprint.

4 At the bottom of the page you speak of a car load of  
5 newsprint from Three Rivers to Fort William, a distance  
6 of 1,200 miles, at a cost of \$25 a ton, and from Fort  
7 William to Saskatoon, a distance of 850 miles, at a  
8 cost of \$38 a ton.

9 A. Yes.

10 Q. That looks on the face of it to be an  
11 anomaly, but I suppose the Three Rivers to Fort William  
12 rate is to meet the water competition, whereas the  
13 rates from Fort William to Saskatoon has not the effect  
14 of water competition?

15 A. This particular industry was established  
16 here to serve the western Canadian market and the  
17 mid-western market in the United States. Hitherto it  
18 had been served from their plant in Quebec, but these  
19 people report that they are having difficulties operating  
20 successfully under these conditions.

21 Q. You don't suggest that because the  
22 competition holds down the rate at Three Rivers that  
23 rate should be applied from Fort William to Saskatoon?

24 A. No, nobody would suggest that.

25 THE CHAIRMAN: Mr. Doherty?

26 CROSS-EXAMINATION BY MR. DOHERTY:

27 Q. My name is Doherty and I represent  
28 the Province of Saskatchewan. I want to discuss with  
29 you your paragraph 26, page 23. You say: "Are the  
30 railways making a maximum effort to sell their services  
to shippers?"







1 Do I understand that in your opinion you do  
2 not consider that the railways are making a maximum  
3 effort to attract shippers to their services.

4 A. We give the views here on the part of  
5 an industrialist at the Lakehead who has had some exper-  
6 ience along that line, and also another man in the  
7 forest products industry who feels that there had been  
8 a little flexibility in considering a rate he would  
9 have been able to harvest a good deal of wood one  
10 winter that wasn't harvested, and that was a loss of  
11 income, employment and perhaps loss of exchange we  
12 need in the United States.

13 Q. Do you think that the failure to  
14 exert the maximum effort would include such things as  
15 a failure to seek new business and a failure to take  
16 best advantage of existing business that was available  
17 to them?

18 A. Well, when you see a rail haul of  
19 raw wood dropping from a quarter of a million cords a  
20 winter to something in the nature of 50 thousand, it  
21 would indicate something that has got out of line, wouldn't  
22 it?

23 Q. Yes, I would think so.

24 A. And the contention of our operators  
25 is that surely there is a rate somewhere in between that  
26 would be compensatory to the railways and would enable  
27 the operators to haul their wood by rail.

28 Q. Would you suggest perhaps a bit more  
29 initiative on the part of the railways going to shippers  
30 to solicit business?





1  
2 A. The operators themselves report that  
3 the railroad personnel on the regional level are not  
4 only efficient and understanding of the situation because  
5 of the very nature of their living here, and they would  
6 like to see the operators using the rail services to  
7 a greater extent. It seems to be that somewhere along  
8 the line these things seem to get pigeon-holed.

9 Q. What, perhaps, would you suggest is  
10 a specific instance of a recommendation that might  
11 permit this type of negotiation?

12 A. I would only conclude that head office  
13 might pay more attention to whatever recommendations  
14 might come from the region.

15 Q. You mean the region might have more  
16 discretion in negotiating a rate?

17 A. It would logically seem so.

18 THE CHAIRMAN: Mr. Hume?

19 CROSS-EXAMINATION BY MR. HUME:

20 Q. My name is Hume and I represent Canadian  
21 Trucking Associations. There are one or two points  
22 in your brief I would like to mention with you.  
23 In a discussion about the rate on pickles which you  
24 referred to on page 15, Mr. Mann asked about the rate  
25 between Fort William and Kenora. I haven't any idea  
26 what kind of a rate that is, but I want to check with  
27 you. Is it not true that there are three regular and  
28 fairly large responsible transport operators between  
29 Fort William and Kenora: Crome, Sioux Security Lines  
30 and Reimers? So that there is a highway competition  
between Fort William and Kenora. That might help Mr. Mann







1 in his question.

2 On page 9 you conclude the bottom sentence  
3 by saying: "... development of which is stymied by  
4 distortions in the freight rate structure where statutory  
5 provisions do not apply and where competitive factors  
6 do not exist."

7 Would you be good enough to paraphrase that  
8 and explain what you mean by that? Is it statutory  
9 provisions with respect to the freight rate structure  
10 or is it statutory provisions with respect to regulation?

11 A. No. We are attempting to highlight  
12 the situation affecting an industry or a shipper who  
13 does not have the protection of an agreed charge or  
14 statutory rate and who perhaps is limited to rail  
15 transportation.

16 Q. So that your words "statutory provisions"  
17 -- are they relating to statutory rates or competitive  
18 rates under the statutes?

19 A. That is perhaps an awkward way of putting  
20 it here.

21 Q. On page 12 you refer in paragraph 15  
22 to the scant few agreed charges applying in northwestern  
23 Ontario, and I suppose your study of the situation will  
24 confirm that one of the problems with respect to the  
25 lack of agreed charges is the lack of truck competition  
26 into this area from western Canada and eastern Canada?

27 A. I would conclude that that would be  
28 a factor.

29 Q. Agreed charges are a type of competitive  
30 rate to meet competition either by location, water or







1 highway carrier. That leads me to ask you this: would  
2 you feel that as a result of the completion of the  
3 Trans Canada Highway and what is expected to be an  
4 increase of highway transportation, this area would  
5 benefit from more agreed charges?

6 A. I would like to answer that question  
7 when they get the Trans Canada Highway built. I don't  
8 think we would have to answer that for a long time to  
9 come at the present rate of construction.

10 Q. I take it, though, Mr. Phillips, that  
11 you and those of you who support you here would like  
12 to see that highway built and more highway competition  
13 enter your area from eastern Canada. Is that a fair  
14 statement?

15 A. Yes. The more modern transportation  
16 arteries we have the better our potential will be.

17 Q. On page 15 you are quoting on the top  
18 of the page one of your members: "regarding truckers  
19 maintaining rail rates, this seems to be a very flexible  
20 point..."

21 You are aware that in the Province of Ontario  
22 there is no rate regulation. May I ask you whether  
23 you are quoting that, indicating that your association  
24 believes there ought to be rate regulation of highway  
25 carriers in this province.

26 A. That is an observation made by the  
27 company involved and we have included it here as perhaps  
28 relevant for the consideration of this commission.

29 Q. You are quoting it in approval?

30 A. Does it require approval? He is merely





1 making the statement that the truckers are charging  
2 merely what the traffic can bear.

3 Q. And because he is not here, I am asking  
4 you whether you feel it might be in the interests of  
5 business that there be truck rate regulation. If  
6 you haven't considered it, then we will pass onto some-  
7 thing else. I wondered whether or not you could assist  
8 the commission by indicating whether or not you considered  
9 there should be rate regulation?

10 A. I would not like to express an opinion.

11 Q. You had two statements on pages 19  
12 and 25 dealing with the forest products industry, build-  
13 ing roads and moving their goods by truck. The point  
14 that occurred to me when I read this the other day is:  
15 are you referring to private road construction or  
16 municipal and provincial road construction?

17 A. This one has particular reference to  
18 a road under construction into the Black Sturgeon area  
19 in which both the provincial and federal governments  
20 are participating with the private interests, and it will  
21 tap part of an area at least which is contiguous to  
22 railway lines between here and Sioux Lookout, and it  
23 would seem that all this extra investment has been  
24 necessary because the railroads have priced themselves  
25 out of the wood we have from Sioux Lookout to the Lakehead.

26 Q. You say the operators. I presume you  
27 are referring there to the operators of the forest  
28 products industry, and I wondered if these were private  
29 roads?

30 A. They are originally private roads, and







1 I believe in some instances there are negotiations with  
2 the government to give them public status.

3 Q. Finally, if you turn to page 34,  
4 in paragraph 36 you were referring to the Red Lake Mining  
5 area which, as you point out, is remote from railhead?

6 A. Yes.

7 Q. And you are talking there -- you say:  
8 "Figures show that the trucking tariffs give the Red  
9 Lake Mines a saving of 27 per cent over rail and truck..."  
10 I am curious to know whether that is a railway movement  
11 in this area or whether you are referring there to  
12 trucking tariffs from eastern and western Canada?

13 A. I am not certain. This is from one  
14 of the competent people in the Red Lake area, and I  
15 would gather that he was referring to truck material  
16 not only from the Lakehead but from the east as well.

17 MR. HUME: Thank you very much. You have  
18 been very helpful.

19 THE CHAIRMAN: Mr. Mauro?

20 CROSS-EXAMINATION BY MR. MAURO:

21 Q. Mr. Phillips, my name is Mauro and I  
22 represent the Province of Manitoba.

23 A. Happy to meet you, Mr. Mauro.

24 Q. When my learned friend Mr. MacDougall  
25 was questioning you, Mr. Phillips, with reference to  
26 the iron ore rate from Atikokan, he referred to page  
27 19 of the waybill analysis and stated that the western  
28 to western movement was largely the Steep Rock movement,  
29 and pointed out that the revenue per ton mile was .91,  
30 while the average, system average was something in excess





Phillips  
(Mauro)

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1 of 1.6 revenue per ton mile. Now, I would just simply  
2 like to advise you also that on the last page of the  
3 waybill analysis there appears the average revenue  
4 per car mile as opposed to the average revenue per ton  
5 mile in the western to western movement, and the Steep  
6 Rock movement returns the railways 68 cents per car  
7 mile, and the Railway Transport reported that the  
8 Dominion Bureau of Statistics for 1958 shows an average  
9 revenue per car mile for the railways of 46 cents. So  
10 that the revenue per car mile from Steep Rock is much  
11 higher than the average revenue per car mile for the  
12 railways?

13  
14 A. Yes.  
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1 Q. In discussions with my learned friend  
2 Mr. Burbidge this morning, you discussed various matters  
3 particularly this question of concessions to mining  
4 companies in order to get them established, and my  
5 learned friend discussed with you the existing conces-  
6 sions in the tax laws. I wondered whether you were  
7 aware of the concessions made to the Canadian Pacific  
8 Railway, taxwise, in order to get them started out as  
9 a railroad: for example, did you know that the Canadian  
10 Pacific Railway does not pay one red cent of taxes  
11 on its main line through Manitoba, Saskatchewan and  
12 Alberta?

13 A. I did not know that exactly, but I  
14 have appreciated for a long time they have been one of  
15 the major beneficiaries of their pioneering days.

16 Q. Did you know when they were incorporated  
17 they received \$25 million cash plus 25 million acres  
18 of western Canadian land free? Did you know that?

19 MR.SINCLAIR: Well, of course, he is wrong  
20 on that. Counsel should be fair. The addition of the  
21 word "free" is absolutely wrong.

22 MR. MAURO: Absolutely wrong.

23 Q. The part of the bargain was that they  
24 received \$25 million in cash and 25 million acres of  
25 land: were you aware of that -- as part of the contract  
26 for their undertaking to build the Trans Continental  
27 Railway to British Columbia?

28 A. I have so read.

29 MR. SINCLAIR: I think the fair way to put it  
30 would be, in exchange for the onerous obligations undertaken







1 by the Canadian Pacific Railway.

2 MR. MAURO: I am surprised my learned friend  
3 did not bring this up in cross-examination when he  
4 had the opportunity.

5 Q. Did you know, Mr. Phillips, that under  
6 that same document that the Canadian Pacific Railway  
7 was relieved of paying any duty on the rail and material  
8 to be imported into the country to construct that  
9 Trans Continental line?

10 A. I have read that.

11 Q. You were aware that the Canadian Pacific  
12 Railway has fairly large interests in gas and oil  
13 reserves part of which are on these free lands given to  
14 them; so, when we discuss concessions to mining companies  
15 in northwestern Ontario or Manitoba in order to develop  
16 the area, we are not introducing -- at least you are  
17 not suggesting this commission introduce any new  
18 philosophy into the Canadian freight rate structure?  
19 There have been concessions as a matter of public  
20 policy ever since the inception of Canada?

21 A. Yes.

22 Q. My learned friend Mr. Burbidge was  
23 referring to this matter of Willroy, and in our little  
24 exchange the facts were disclosed that there is no rate  
25 now between Willroy and Fort William, and as I understand  
26 the position of the Northwest Ontario Development  
27 Association it is this fact that you are placing before  
28 this commission -- the fact that the present policy of  
29 the railroads tends to bypass the Canadian Lakehead?

30 A. Well, in this instance, naturally the





1 success of the mining operation is of very vital economic  
2 value to the Lakehead, and I have heard, personally, the  
3 management of Willroy express its original interest  
4 in getting into European markets and not being limited  
5 or restricted to the American market only, and they have  
6 been unable to do so.

7 Q. One of the great geographical advantages  
8 of the Canadian Lakehead is that it happens to be sitting  
9 on this fantastically potential waterway of the Great  
10 Lakes System and now of the St. Lawrence Seaway System,  
11 and you people here, as I understand your brief, are  
12 not asking for any charity; you are not asking the  
13 railways, through their policies, to offset geographic  
14 disadvantages, but you are asking this commission to  
15 proclaim a policy that will not permit the railways  
16 to deny you of your geographical advantages?

17 A. I think that is exceptionally well put.

18 Q. On that same general ---

19 A. Mr. Mauro, iron ore was barged up the  
20 Mississippi River last year from Venezuela into the  
21 Chicago area, and we have these tremendous deposits  
22 within a very short rail haul of our seaway ports at  
23 the Lakehead with one canal to go through and into  
24 Michigan and into the great Chicago market, and our  
25 interest is that Canada should be aware of the situation  
26 and should take steps that would implement and stimulate  
27 that development because we are running into more and  
28 more prodigious trade deficits particularly with the  
29 United States, and how is it to be corrected and how is  
30 Canada to be placed on a solid footing unless we can







1 convert this natural wealth we have into just such  
2 terms as balanced trade with other countries, and this  
3 looks like one of the major opportunities we have in  
4 Canada, not only in northwestern Ontario, but on a whole  
5 national basis.

6 Q. I wonder whether the Northwestern Ontario  
7 Development Association considered the matter of lake  
8 and rail rates and the present policy of the Board of  
9 Transport Commissioners of maintaining a fixed differential  
10 on water rates below rail rates? Has your association  
11 considered that problem?

12 A. Well, our association was informed that  
13 another brief is going to deal with this, and we lack the  
14 knowledgeability of the ensuing witness, and I regret  
15 very much, and I must apologize to counsel for the  
16 very elementary nature of my knowledge on this subject.

17 Q. No apologies are necessary; I think it  
18 is an excellent brief. Does your association support  
19 the ensuing brief -- the submissions in connection with  
20 this lake and rail problem?

21 A. I can't speak for all the directors,  
22 but I can suggest they would -- I have read the brief,  
23 and I am in agreement with what is represented there.

24 Q. On these horizontal percentage increases,  
25 I take it that the position of the Northwestern Ontario  
26 Development Association is, firstly, that the present  
27 system is not functioning properly in the best interests  
28 of economic development?

29 A. Yes, we feel that.

30 Q. And while you have not described or set





1 any particular alternative, your association would endorse  
2 a method which tended to lift the burden, at least to  
3 redistribute the burden, presently being borne by the  
4 long haul shipper under percentage increases?

5 A. Enthusiastically.

6 Q. My learned friend Mr. Burbidge discussed  
7 with you this matter of distortions in the freight rate  
8 structure and discussed for a moment whether it is a  
9 distortion or a difference or an inequity, and I suggest  
10 to you, Mr. Phillips, that your association in referring  
11 to distortion had in mind those rate classifications  
12 that exist today where goods, for example, can be  
13 shipped from British Columbia to Toronto cheaper than  
14 they can be shipped from Fort William to Toronto and  
15 that, in your opinion, such a rate structure made up of  
16 these various rates does represent inequities to the  
17 northwestern Ontario shipper?

18 A. Yes, sir.

19 Q. And that my learned friend said to you  
20 it was a basic principle of rate making that a railroad  
21 can either meet or determine not to meet competition where  
22 it exists; in other words, that they are a free agent  
23 in meeting competition if they want to, and they can meet  
24 it in one place and not in another. Would you agree  
25 with me that while that may be a true statement of the  
26 present situation, that this commission should also  
27 enunciate that the railways by this policy should not  
28 be permitted to choose which industry or which manufacturer  
29 will be permitted to compete in a given market?

30 A. Certainly on the surface, Mr. Mauro, it







1 seems unjustifiably unfair to the man who has to pick  
2 up that added burden.

3 Q. And that if there is a manufacturer  
4 in Fort William or Port Arthur or Northwestern Ontario,  
5 1500 or 1600 miles closer to Toronto than a British  
6 Columbia manufacturer, it would appear to you that the  
7 Northwestern Ontario manufacturer should at least obtain  
8 the same rate as the British Columbia manufacturer on  
9 the basis even of a cost of service?  
10

11 A. It just seems only common sense to  
12 us.

13 Q. And, similarly, that you should be able  
14 to, going westward, if they have given a rate to a  
15 Montreal shipper into Vancouver or the prairie market  
16 that that rate should be available to a northwestern  
17 Ontario manufacturer or producer shipping into the same  
18 market -- the British Columbia or prairie market?

19 A. Yes, that appeals to me, very much.

20 Q. Did you know, Mr. Phillips, that, for  
21 example, on these rates to British Columbia -- I will  
22 just point out one or two of them to you: from Winnipeg  
23 to British Columbia on edible oils, \$2.90 per 100 pounds;  
24 edible oils from Toronto, \$2.26 per 100 pounds, even  
25 though Winnipeg is 1200 miles closer to the market. There  
26 are any number of these rates that you probably saw in  
27 our brief which we submitted. It is this sort of  
28 distortion that the Northwestern Ontario Development  
29 Association suggests should be looked at?

30 A. We do.

Q. May I extend to you, Mr. Phillips, and to







1 your association, very sincere congratulations. This  
2 is the first major attempt of your association, as I  
3 know it, to present something to a Royal Commission on  
4 Transportation, and I think you have done a very credit-  
5 able job.

6 MR. PHILLIPS: Thank you very much.

7 BY MR. GOBEIL:

8 Q. In paragraph 45 on page 41 of your  
9 brief you talk of the mining industry, and you give  
10 a rate for 100 miles in the Province of Quebec, a rate  
11 which is half of what you pay here, and, according to  
12 what you say here, this does not only apply to railways.  
13 It also applies to the waterways, and in that case it  
14 is two and a half times. How do you explain that?  
15 Is it just discrimination, or is there some other  
16 reason why there is such a big difference?

17 A. We would certainly hesitate to use the  
18 word "discrimination". I think in the case of Quebec  
19 there is probably the ocean rates involved going down  
20 to Philadelphia and those ports, and I am not altogether  
21 certain of what this 70 or 80 cents might be on that privately  
22 owned railroad running up into Quebec. I am not certain  
23 about that, and I wish to make that quite clear.

24 Q. But the same thing applies to the water  
25 rate too?

26 A. Yes -- well, no.

27 Q. Except, it is worse; you arrive at two  
28 and a half times?

29 A. Our mining people feel we should have a  
30 little better water rate to enable us to compete with the





1 traffic that is moving westward from the St. Lawrence  
2 Seaway ports. According to these figures we have been  
3 given, we are at a distinct disadvantage.

4 BY MR. ANSCOMB:

5 Q. I wonder if you would clear my mind  
6 on something that has not anything to do with freight  
7 rates. On page 16 you refer to some company who came  
8 into this area to build and construct ships, and then  
9 they say very distinctly that the high freight rates  
10 prohibited them and they have left the shipping business.  
11 Can you tell me if the wage structure in that area was  
12 the same or comparable to that in Collingwood or where  
13 their competition came from?

14 A. They haven't left the ship-building  
15 business. It is still a ship-building company.

16 Q. Yes, that may be, but they virtually  
17 say here that they don't build ships.

18 A. To keep their personnel employed, they  
19 have to become very versatile and extend into other  
20 operations.

21 Q. Yes, I understand that.

22 A. At the present time they have to bring  
23 in most of the components of their ship and what that  
24 represents in terms of dollars I wouldn't be prepared  
25 to say, but in competition with Collingwood and these  
26 other points we are at a distinct disadvantage.

27 Q. Perhaps I am not making my question  
28 quite clear.

29 A. As to the wages?

30 Q. As to the wage rate in the two areas.







1 Is there a vast difference in the wage rate in the two  
2 areas? I will tell you perfectly frankly why, because  
3 I happen to come from an area where they are in the ship  
4 building business, and when they tender for ships the  
5 rates in British Columbia are on an average of \$2.46  
6 an hour. I said "average". When you come to Collingwood  
7 they are \$1.86 an hour. So, there is a differential of  
8 60 cents an hour, and I am asking you, is there any  
9 comparison of that nature between these two cases you  
10 are speaking about, because if there is it is quite  
11 obvious that it is not all a freight problem that  
12 puts these people out of the ship building business.

13 A. No, and we don't pretend to contend  
14 that it is, but we do insist it is a major factor.  
15 I would think that the wage here would be somewhere  
16 between the British Columbia figure and the Collingwood  
17 figure.

18 Q. It might be a half way house?

19 A. I would be only too pleased to get the  
20 exact figure for you.

21 Q. No, I haven't got it but I can get it.  
22 However, I do appreciate your effort.

23 Would you go to page 30 where you are dealing  
24 with another type of industry altogether, and you have  
25 1600 people employed with a wage structure of 6.6 million  
26 per year -- that is, \$4000 a person for 252 or 254 days  
27 a year; not a bad rate, I suggest to you, and I am not  
28 arguing whether it is good or bad, but I am asking you  
29 whether that is entirely different from some area in  
30 which your people might be competing? When you come to





1 this question of costs -- and somebody raised the ques-  
2 tion of costs this morning -- the question of time costs  
3 are very important in industry, and when you come to  
4 average it you will find that the average rate per  
5 cost of everything, on an average, is about 70 per cent  
6 of the value of that product. All I am trying to find  
7 out is whether there is such a vast difference there  
8 or whether there is not. If there is not, that settles  
9 it. If there is, then we may be wasting quite a lot  
10 of time in saying it is pretty well established that  
11 the railways or the truckers or the waterways are getting  
12 too much?

13 A. I would think that the union rates in  
14 this particular industry, perhaps, would be comparable  
15 to the rest of the industry in Canada. The woodlands  
16 costs would be higher.

17 Q. You think the 6.6 would be comparable  
18 to British Columbia?

19 A. Yes.

20 BY COMMISSIONER MANN:

21 Q. Mr. Phillips, your association believes  
22 that one time the Canadian freight rate structure was  
23 geared to take care of the national development. Am I  
24 right in saying that? I am taking my cue from page 4  
25 of your submission where you say, "We respectfully  
26 submit that our progress is being retarded by a freight  
27 rate structure that is no longer geared to the development  
28 needs of the nation" and so on. When you say "no  
29 longer geared" you are saying, in effect, at one time  
30 it was geared to the national development?





1 A. It would seem so to us, sir.

2 Q. You believe, then, that the freight  
3 rate structure should be an instrument of national  
4 development, do you?

5 A. Indeed I do.

6 Q. When we say "freight rate structure"  
7 I suppose what we mean in this context is the railway  
8 rate structure?

9 A. Yes.

10 Q. Do you go further and do you also say  
11 that transportation generally is an instrument of  
12 national policy? Perhaps I should, before you answer  
13 that, tell you what I have in mind. Do you think the  
14 trucking industry and the steamship industry, the airlines,  
15 and so on, are to the same degree instruments of  
16 national policy as you think the railways are?

17 A. I could not hazard an estimate as to  
18 the same degree, but certainly in varying degrees they  
19 are vital to the national economic development policy.

20 Q. And should be used as instruments of  
21 national policy: would that follow from your answer?

22 A. Yes, sir.

23 Q. On page 17 -- and this is a minor  
24 matter of something you could enlighten me on because  
25 I come from a part of the country where fish is rather  
26 important: paragraph 21, you talk about express shipments  
27 from northwestern Ontario to, presumably, Toronto and  
28 so on, of fish. Are there no truck movements of fish  
29 from here to Toronto?

30 A. I think recently they have instituted some







1 truck shipments.

2 Q. And is that on the increase?

3 A. Our information from that area is that  
4 it will be as the roads improve.

5 Q. And that would mean that the express  
6 rates would no longer be as important as they are now?

7 A. That would follow.

8 Q. The movement from Lake Erie ports would  
9 most likely be by truck, would it?

10 A. I don't know. I would think so.

11 Q. If you refer to page 20, where you are  
12 talking about the efforts made by the government to  
13 stimulate winter employment, you have a sentence there  
14 where you say, "the state-owned railway's protracted  
15 obsession with a rigid rate structure nullified the  
16 state's efforts to spur employment..." and so on.  
17 Are you making any differentiation at all between the  
18 Canadian National, the state-owned railway, and the  
19 Canadian Pacific in this regard? There is no particular  
20 significance to be attached to the "state-owned"?

21 A. No.

22 Q. This could also hold with regard to  
23 the Canadian Pacific?

24 A. Well, I cite a certain case there, and,  
25 according to our information, it was the C.N.R.

26 Q. Yes, I just wanted to clarify that. You  
27 are not trying to attach a stigma to the Canadian  
28 National?

29 A. We love all our own possessions, among  
30 which is the C.N.R.





1 Q. Yes. In your discussions with the  
2 pulpwood operators, has there been any talk about  
3 getting pulpwood rates on a per cord basis? I am  
4 referring to page 32 where there is a quotation from  
5 something that was reported to the Gordon Commission?  
6 You talk about the comparison on a mileage basis of  
7 rates on pulpwood in the United States and Canada:  
8 many of the United States pulpwood rates are on a  
9 per cord basis. Has there been any interest in this  
10 area in a per cord basis for pulpwood rates rather  
11 than one hundred pounds?

12 A. There might well have been, but I can't  
13 recall any such discussion, with my own limited exper-  
14 ience.

15 Q. On page 42 of your submission you want  
16 a more equitable rate structure, rail and water, and  
17 you want that in relation to shipment of northwestern  
18 Ontario iron ore. Do you feel that such a rate  
19 structure could be brought about if bulk water carriers  
20 were brought under the regulation of, say, the Board  
21 of Transport Commissioners such as package freighters  
22 are now in certain parts of Canada? There is no  
23 control now, as we know, over the rates charged by  
24 bulk water carriers. Can you get to your equitable  
25 rate structure, do you think, if both components of  
26 the rate -- the rail and the water components -- were  
27 regulated by either the same agency or two different  
28 agencies?

29 A. I would like to offer an opinion on that,  
30 sir, but I just doubt my competence to do so.







1 Q. At the bottom of that page, in paragraph 47,  
2 you are advocating the institution of northern  
3 development freight rates to spur the use of our  
4 mineral and forest resources in the under-developed regions,  
5 and so on: are you restricting your advocacy of  
6 development rates to primary production, or do you  
7 also envisage development rates for secondary industries?

8 A. I think it would be a mighty big step  
9 forward if we could start out with the natural re-  
sources.

10 THE CHAIRMAN: And you think they would breed  
11 secondary industries?

12 THE WITNESS: Yes, we have already instances  
13 of that, in a small way, where the secondary ones  
14 are serving the primary resources.

15 BY COMMISSIONER PLATT:

16 Q. In your brief you mention in several  
17 places the importance of the export market: do you  
18 think, rather than development rates, that if we had  
19 an export subsidy on all products going out of this  
20 country particularly primary products, and let them  
21 pay the normal freight rates, that this would accomplish  
the same end?

22 A. It may well be. It would have to be  
23 considered in the light of the circumstances that are  
there.

24 Q. But you do feel it would be good for  
25 Canada as a whole to do something to subsidize the  
26 export of primary products?

27 A. Canada has certainly got to increase  
28  
29  
30





1 its exports, and if this one formula by which it can  
2 be done, that will be of advantage to Canada, why,  
3 it certainly would merit consideration.

4 THE CHAIRMAN: Thank you very much, Mr. Phillips.  
5 Congratulations to your association on your submission.

6 I think in a very real way you have made a contribution  
7 to the Lakehead, and I am glad that I have been one  
8 of those who have been here to hear it. Thank you  
9 very much.

10 MR. PHILLIPS: It is extremely kind of you,  
11 Mr. MacPherson and gentlemen.

12 ---A short recess.

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SUBMISSION BY  
THE JOINT TRANSPORTATION COMMITTEE  
FORT WILLIAM - PORT ARTHUR  
CHAMBERS OF COMMERCE

Appearances:

E. G. Charnock, Chairman.

THE CHAIRMAN: Yes, Mr. Charnock.

MR. CHARNOCK: Mr. Chairman, the idea of this was that Mr. Phillips' brief was supposed to give you the symptoms and this one here adheres more closely to the terms of reference given your commission.

THE CHAIRMAN: Well, now, you are Mr. E. G. Charnock?

MR. CHARNOCK: That is right, sir.

THE CHAIRMAN: And you are the Chairman of the Joint Transportation Committee of Fort William and Port Arthur Chambers of Commerce?

MR. CHARNOCK: That is right.

THE CHAIRMAN: And on their behalf you are making a submission?

MR. CHARNOCK: That is right.

Mr. Chairman and Commissioners:

1. It is a pleasure and a privilege to welcome you on behalf of our Chambers of Commerce to The Lakehead. We feel sure that after the earnestness of our invitation you will realize the real sincerity of our welcome. We also assure you that an appreciation of the magnitude and complexity of your terms of reference lead us to place a







1 very high value upon your deliberations and we thank  
2 you sincerely for this opportunity for presenting to you  
3 some phases of the complex Canadian transportation  
4 economy which we consider vitally important to our  
5 territory.

6 2. In the preparation of this brief we have sought  
7 to avoid all bias and to adhere to the principle of  
8 fairness which is a basic characteristic of Chamber of  
9 Commerce consideration of all matters pertaining to the  
10 welfare of their respective locations and of our country  
11 as a whole. Our brief has been approved by the Joint  
12 Transportation Committee and by the Chamber of Commerce  
13 of Port Arthur and Fort William of which this committee  
14 is an integral part, legally organized and composed of  
15 Chamber of Commerce members appointed each year..

16 3. Because of our geographical situation and  
17 many physical and economic conditions, ours is a unique  
18 and quite complicated territory to consider and all  
19 phases and types of transportation are vastly important  
20 to our economic welfare.

21 4. Welcome has been extended to you by other  
22 ports but there is only one Canadian seaport at the  
23 Northwestern end of a waterway extending 2,235 miles  
24 from the Atlantic at Belle Isle and situated within  
25 four miles of the geographical east-west centre of  
26 Canada, also 602 feet above the Atlantic mean at New  
27 York. These features add their quota of complications  
28 in comparison with ocean coastal ports and place us in  
29 direct competition with Duluth, Minnesota, which lies  
30 southwest of us. Here at the Canadian Lakehead all





1 types of transportation meet, combine and/or compete.

2 5. The inland part of our position has its  
3 complications, both urban and suburban, for besides  
4 our two cities with their population of approximately  
5 90,000, we are concerned with the vast territory of  
6 Northwestern Ontario with its potentials upon which  
7 nobody has as yet presumed to set a limit and regarding  
8 which our good friend Mr. Alexander Phillips, manager  
9 of the Northwestern Ontario Development Association is  
10 also presenting a brief, citing vast potentials and  
11 many rates detrimental to their development.

12 6. A further complication in considering the trans-  
13 portation situation in our territory lies in the fact  
14 that while Winnipeg, for instance, may consider that  
15 "east is east and west is west and never the twain  
16 shall meet"-- they not only meet in Northwestern Ontario  
17 but overlap. The waybill analysis places our territory  
18 east of Port Arthur and Armstrong in the same regional  
19 group as Toronto and Montreal to which places they bear  
20 little or no relation except political, while from the  
21 Lakehead and Armstrong inclusive to the Manitoba  
22 boundary, our territory is more properly grouped with  
23 the western or prairie provinces. Yet rates and cond-  
24 itions within both sections of our territory are  
25 practically the same and more closely related to the  
26 west than to south or southeastern Ontario. This  
27 complicates consideration of the waybill analysis  
28 averages commonly used and adds emphasis to consideration  
29 of individual cases with us while probably not having  
30







1 too much influence elsewhere until our traffic involved  
2 comes closer in volume to what it should be. Hence  
3 the separate brief has been prepared reporting specific  
4 cases.

5 7. THE ABOVE DOES NOT MEAN THAT WE ARE ADVOCATING  
6 A CHANGE IN THE STATUS OF THE LAKEHEAD OR ARMSTRONG AS THE  
7 STAGING POINT OF THE WEST IN THE EASTWEST TRAFFIC  
8 SITUATION NOR THEIR STATUS IN THE WEST-EAST MOVEMENT.  
9 BUT IF A SEPARATE AVERAGE WITHIN OUR TERRITORY COULD  
10 BE ESTABLISHED IT WOULD HELP TO CLARIFY CONSIDERATION  
11 OF OUR SITUATION.

12 8. Our transportation situation and the problems  
13 related to it may, for simplicity of consideration, be  
14 roughly grouped into two general phases:

15 a.....Transfer traffic

16 b.....Lakehead - N.W. Ontario welfare and  
17 development.

18 Of course the two interlock and are inter-dependant to  
19 a considerable extent with no absolutely definite  
20 segregation of financial values practical on this basis.

21 9. There has for many many years been a  
22 complexity of freight rates applicable into, out of and  
23 through the Lakehead and with the larger ocean ships  
24 coming to the Lakehead now, this situation is still  
25 further complicated so that we are very susceptible to  
26 almost any economic change affecting transportation  
27 even though the prime cause of the change may be far  
28 removed from the Lakehead.

29 10. Some of the instances relating to paragraph 9  
30 are as follows:-





a... Canadian grain marketing conditions

versus the United States conditions can, and have caused grain to lie in our terminals while ships which have unloaded here have gone light from here to Duluth for export grain in 1959; and this despite the Crow's nest Pass Rates to the Lakehead.

b... Removal of the "mountain differential"

some years ago was followed almost immediately by an increase of 19 cents per 100 pounds on lumber rates which have been chaotic ever since.

c... Replacing steam locomotives with diesels plus increased use of oil and gas by commercial and private users has reduced the quantity of coal handled through our harbours at the Lakehead from 809,548 tons in 1954 to 334,263 tons in 1958; a drop of 556,285 tons; and if we were to go back to around 1928 and compare with 1959 it would probably be a couple of hundred thousand tons more drop. This all means lost revenue to our merchants, utilities, etc. both local and in the towns around where the population has been greatly reduced. Presumably this has meant a saving to the railways and of course it is a natural surrender to automation and advancement but in the face of increasing freight rates at the same time, perhaps a laddie who lost his pay cheque







1 might be excused if he wondered who got  
2 it.

3 d... Not only the facilities at a port but  
4 transportation beyond the port are import-  
5 ant. Unfortunately for us traffic is  
6 moving from Toronto points via United  
7 States highways to Western Canada (as was  
8 confirmed by the representatives of  
9 Brandon in cross examination in presenting  
10 the brief for that city before your  
11 commission in Winnipeg recently). The  
12 reason given us by truckers is better  
13 highways and trucking arrangements. But  
14 this situation is under consideration by  
15 our Provincial and Federal Governments  
16 which we hope and expect will be able to  
17 find ways and means of keeping this  
18 Canadian traffic in Canadian channels.

19 e... Above all, inequalities and unrealistic  
20 features in rates with which we will  
21 deal later.

22 11. The Equalization of Class Rates helped our  
23 territory for the very simple reason that our rates prior  
24 to the equalized rates becoming effective were so high  
25 as to be out of all proportion to rates existing east  
26 or west of us.

27 12. The Bridge Subsidy has directly helped that  
28 part of our territory which lies at or west of the  
29 Lakehead but as it does not apply into or out of or  
30 within our territory east of the Lakehead the only benefit







1 that section gets from it is in connection with goods  
2 from the east via the Lakehead. But the method of  
3 application of this subsidy gives, in our opinion, a  
4 far greater benefit to the far western provinces as the  
5 application should have been on a straight hundred  
6 pound basis instead of the present split method of  
7 percentage and "hundred pound". After all, if  
8 the subsidy did not exist and rates were charged on a  
9 cost basis over the territory involved, the cost, item by  
10 item, would be the same regardless of the destination  
11 and if the effect of this mileage is considered in  
12 connection with tapering then the ratio of reproduction  
13 to the longer hauls would be even less.

14 12A.....In his presentation on behalf of the Government  
15 of Manitoba, Premier, the Honourable Duff Roblin  
16 (pages 2,3,4, and 5; paragraphs 1 to 12 inclusive)  
17 reported to your Commission a full description of events  
18 leading up to the appointment of your Commission and  
19 the comprehensive terms of reference given you. We  
20 do not need to enlarge upon this except to clarify our  
21 position in connection with those events.

22 a... First of all, the Turgeon Committee passed  
23 us by and considered little if anything between  
24 Winnipeg and Toronto; but in following up their re-  
25 commendation concerning equalization, our position and  
26 relation to the total picture was found important and  
27 since then we have had recognition by the Board of  
28 Transport Commissioners for Canada.

29 b... In all the previous protests made by the  
30





1 provinces against rate increases, Ontario and Quebec  
2 alone refrained. As far as Lakehead - Northwestern  
3 Ontario was and is concerned, we have recognized there  
4 are many Ontarios in the transportation sense with wide  
5 differences, but even if the Province as a whole did not  
6 protest, still, as we had clearly established our very  
7 close relationship to the western provinces, we would  
8 share in any favourable result of their protests and  
9 avoid argument. But when an easement of the  
10 western situation was suggested in connection with  
11 the 17 per cent increase, which would have been very  
12 much to our disadvantage, we presented our protest in  
13 Ottawa in April, 1959, before the Railways, Canals and  
14 Telegraph Lines Committee of the Federal Government.  
15 This put us in our proper category.

16 13. National Economic Policy

17 While the Order-in-Council creating this Commission  
18 speaks of it being "in the National Interest that a  
19 comprehensive and careful inquiry be made .... into  
20 problems relating to railway transportation....",  
21 clause (a) of the Commission's specific terms of re-  
22 ference speaks of investigating legislative and other  
23 changes that should be made in furtherance of National  
24 Economic Policy.

25 14. Clause (b) of the Commission's specific terms  
26 of reference mentions "legislation etc. imposed  
27 upon the railways by law for reasons of public policy."

28 15. It is the considered opinion of this Joint  
29 Transportation Committee of the Fort William - Port  
30 Arthur Chambers of Commerce that the term "National







1 Economic Policy" is too broad a term to be used  
2 without further clarification by the Commission as to  
3 its meaning, as intended in the terms of reference  
4 and its relation to the role of transportation.

5 16. The above-mentioned specific terms of reference  
6 seem to imply that the Commission shall consider all  
7 factors of Canadian Transportation as of today and  
8 decide what changes are necessary to formulate a policy  
9 concerning transportation as realistic and as equitable  
10 as possible to the public and all types of public  
11 carriers.

12 17. Such a Transportation Policy would of course  
13 influence the National Economic Policy by taking to  
14 account new factors not previously considered but  
15 revealed by submissions to the Commission.

16 18. If a policy such as this could be brought into  
17 being on a realistic basis and subscribed to by in  
18 principle by the carriers, the Government and other  
19 bodies representative of the public, it would help  
20 to supply a basic and reasonable common starting place  
21 for consideration of the complex transportation  
22 problems of today and the future.

23 19. This could be helpful in such cases as where  
24 "Public Policy" might demand that in the "National  
25 Interest", transportation services be rendered at  
26 rates not compensatory to the carriers and it becomes  
27 a matter of "National Economic Policy" as to whether  
28 or not the service shall be provided (or maintained)  
29 and how the deficit shall be taken care of.  
30





1 20. The immense contribution made to Canada's  
2 economic welfare by transportation is history and so  
3 is the assistance rendered by the different Governments  
4 to national and regional development but there is  
5 still opportunity in Northwestern Ontario as in Northern  
6 Manitoba for plenty more of this service which would  
7 benefit not only the territory involved but would  
8 solve a considerable part of the Transportation problem.

9 21. There are also places like the Maritimes where  
10 the process still continues in order to meet special  
11 conditions and it is just as reasonable that special  
12 attention should be given to the undeveloped parts of  
13 our country to obtain the revenue which is seemingly  
14 so badly needed from the development of vast potentials.

15 22. This situation was covered extremely well in  
16 the brief presented to your Royal Commission in  
17 Winnipeg in February, 1960 by the Honourable Gurney  
18 Evans on behalf of the Government of Manitoba. We  
19 refer to paragraphs 56, 57 and 59 under the heading  
20 of "National Transportation Policy and Regional Economic  
21 Development" and it should be specially noted that the  
22 recommendations made in these paragraphs are on a  
23 broad, constructive, national basis which the Chambers  
24 of Commerce at the Lakehead sincerely appreciate and  
25 endorse by the following recommendations:

26 1) The Commission in reappraising the role of  
27 national transportation policy to-day give  
28 careful consideration to its effectiveness in  
29 encouraging regional economic growth and  
30 expansion, and that the Commission recommend







1 such changes in national transportation policy  
2 as are required to re-affirm its positive  
3 role in facilitating development of the  
4 various regions of the country. Examination  
5 is required in particular of the deterring  
6 effects of present transportation rates and  
7 freight classifications on the industrial and  
8 commercial growth of the less developed  
9 regions.

10 2) The Commission examine the deterring effects  
11 of the present freight rate structure on intra-  
12 regional development with a view to re-  
13 commending removal of the inequities and  
14 distortions in the freight rate structure as  
15 between different areas in a region. Not  
16 only does the present freight rate structure  
17 result in intra-regional inequalities in  
18 opportunities for development but it also  
19 results in intra-regional inequalities in  
20 opportunities for industrial and commercial  
21 expansion. Decentralization of industry  
22 and commerce into rural areas of the provinces  
23 including Manitoba and Northwestern Ontario  
24 requires a level of freight rates that will  
25 encourage local development.

26 24. Development Rates for the North

27 The present freight rate structure cannot  
28 facilitate maximum development of the resources of  
29 Northern Manitoba and Northwestern Ontario. Rate  
30 reduction will stimulate creation of new traffic and







1 will increase existing traffic. There appears to be,  
2 however, a disposition for the railways to conform to  
3 existing traffic patterns, administrative procedures  
4 and competitive arrangements which inhibit their ability  
5 to make the necessary adjustments in the freight rate  
6 structure. Implementation of national policy  
7 for the development of the Canadian North therefore  
8 requires, in the Manitoba Government's view, and that  
9 of the Chambers of Commerce of Fort William and Port  
10 Arthur the institution of development rates or alter-  
11 natively a northern development freight rates subsidy  
12 to enable the railways to reduce rates. There is  
13 precedent for such assistance in the particular  
14 national policies that are designed to assist the  
15 various regions of Canada in their development by means  
16 of special subsidies from the Federal Government for  
17 the reduction of freight rates to shippers in  
18 these regions. Such assistance should properly  
19 be borne by the Federal Government as part of its  
20 national development policy. It would enable the  
21 railways to institute a level of rates that would  
22 facilitate development of the northern regions.

23  
24 25, The Government of Manitoba has recommended that  
25 the Commission,

- 26 1. Examine the impact of the present railway  
27 freight structure on development of the  
28 Canadian North, including Northern Manitoba.
- 29 2. Investigate the means whereby there could be  
30 instituted development rates or alternatively





1 a northern development freight rates subsidy  
2 for shipments to and from the northern  
3 regions based on the principle underlying  
4 either the Maritimes Freight Rates Act or  
5 the East-West Bridge subsidy.

6 26. The Chambers of Commerce of Port Arthur and  
7 Fort William do hereby concur fully in the above  
8 mentioned recommendation but with the additional recom-  
9 mendation to the Commission that Northwestern Ontario  
10 be included as well as Northern Manitoba.

11 27. The words underlined are those added to the  
12 original recommendation.

13 28. Before dealing with Inequities in The Freight  
14 Rate Structure etc. and in order that an idea may  
15 be gained of the pattern of traffic and conditions  
16 to which such matters apply, the following detail is  
17 submitted in the order mentioned in paragraph 8 of  
18 this brief. (page 2)

19 29. Transfer Traffic

20 Ever since Fort Kaministiquia was built on  
21 the river of the same name in 1679 near where the river  
22 enters Thunder Bay, the Lakehead has been a key point  
23 in the exploration and later the development of Western  
24 Canada. It was here that big lake canoes transferred  
25 supplies from the East to smaller river canoes and in  
26 return received from them furs from the West.

27 30. The pattern of movement of supplies westward  
28 and products eastward, grew and developed and built  
29 our two Lakehead cities. The pattern still  
30 exists though commodities and carriers have changed







1 beyond any comparison. It is a far cry from a canoe  
2 to a 725 foot "laker" or a diesel.

3 31. During the navigation season of 1958 (if  
4 official figures for 1959 are available before this  
5 brief is circulated, they will be reported as an  
6 appendix.) the Lakehead harbours jointly handled the  
7 following tons (2000 lbs.):-

8 Loaded Out

9  
10 Coastwise 8,115,684  
11 International 1,971,559 10,087,243

12 Unloaded

13 Coastwise 644,093  
14 International 479,841 1,123,934

15 Total tons via Lakehead 11,211,177 tons 1958

16 Toronto and Hamilton 10,600,501 .. .. comparison

17 Number of ships carrying the Lakehead tonnage were as  
18 follows:-

19 Arriving:

20 Departing:

21 Under Ballast 1546 Under Ballast 335  
22 Under Cargo 573 Under Cargo 1781

23 TOTAL 2119 2116

24 3 tied up?

25 Of those which cleared light, some undoubtedly went to  
26 Duluth for grain due to U. S. Disposal policy.

27 Of the total Lakehead tonnage, all the grain 8,341,805 tons  
28 and package freight estimated at 540,000 "  
29 would be for account of Western Canada, say 8,900,000 tons  
30 round figures.

31 32. These figures plus the fact that Western  
32 Canadian grain people have a capital investment in  
33 our terminal elevators of perhaps close to two hundred  
34 million dollars (\$200,000,000) give a fair indication





1 of the relationship between the west and the Lakehead.  
2 They show how closely the economic status of the Lakehead  
3 depends upon and is affected by the economic devel-  
4 opment of the west.

5 33. Total facilities at the Lakehead including  
6 93 million bushel terminal elevator grain storage,  
7 ore dock, coal docks, oil docks and transfer sheds  
8 also a considerable number of private docks, have a  
9 combined value of well over three hundred million  
10 dollars (\$300,000,000). The federal government is in  
11 the process of building transfer sheds and docks at  
12 a cost estimated at seven and one-half million dollars  
13 more (\$7,500,000). We have close to 40 miles of  
14 water-front all told.

15 34. Lakehead-Northwestern Ontario Welfare and  
16 Development.

17 This territory includes in its approximate  
18 213,000 square miles the two Lakehead cities of  
19 Port Arthur and Fort William who's harbours jointly  
20 constitute the world's largest grain shipping port.  
21 It also includes about a dozen important, widely  
22 separated communities engaged in such industries as  
23 mining, pulp and paper, lumber, woods products, farming,  
24 fishing, tourism etc. Yet the whole territory only  
25 has a population of about 220,000 or somewhere near the  
26 half of the population of greater Winnipeg. Thus  
27 we need more industry to bring more population, for  
28 industry and population are two of the prime factors  
29 in the production of traffic.

30 35. Though the traffic from and to this area





1 runs into millions of tons per year the need for  
2 development of its immense proven resources and  
3 potential untapped resources must be apparent.

4 36. And the key to it all is TRANSPORTATION RATES.

5 37. CONSEQUENTLY THE CHAMBERS OF COMMERCE OF  
6 FORT WILLIAM-PORT ARTHUR ON THEIR OWN BEHALF AND ON  
7 BEHALF OF THE VARIOUS ASSOCIATED CHAMBERS OF COMMERCE  
8 OF THE DISTRICT EARNESTLY REQUEST THAT YOUR ROYAL  
9 COMMISSION GIVE CAREFUL AND AS PROMPT AS POSSIBLE  
10 CONSIDERATION TO THESE CIRCUMSTANCES AND ESPECIALLY  
11 TO THE SUGGESTIONS OUTLINED IN PARAGRAPHS 23 TO 26  
12 INCLUSIVE OF THIS BRIEF.

13 38. They waybill analysis divides out territory  
14 into east and west and so averages are not available  
15 covering our area as a whole. The rates in the two  
16 sections are however basically the same. To the  
17 Lakehead from Heron Bay 196 miles east and Sioux  
18 Lookout 197.5 west class rates are equal. Individual  
19 rates seem in line with those Manitoba show, not  
20 any lower anyhow, but of course Manitoba shows averages  
21 without definite mileage. Thus checks against  
22 specific individual movements are not too easy. We  
23 refer to Schedule D in the brief read by Premier  
24 Roblin in Winnipeg, February, 1960.

25 39. Inequities in the Freight Rate Structure

26 The Chambers of Commerce of Fort William  
27 and Port Arthur earnestly and respectfully request the  
28 Royal Commission to give careful consideration to the  
29 following conditions in the freight rate structure  
30 which the Chambers consider particularly detrimental







1 to the welfare and development of the Lakehead and  
2 Northwestern Ontario.

3 40. Horizontal Freight Rate Increases on a  
4 Percentage Basis

5 The fact that a far larger percentage of in-  
6 creases in freight rates has been authorized by the  
7 Board of Transport Commissioners for Canada than the  
8 carriers have been able to realize would seem to be  
9 prima-facie evidence that the aforesaid authorizations  
10 are not realistic. In evidence before the Federal  
11 Standing Committee on Railways, Canals and Telegraph  
12 Lines in Ottawa, April 14 to 17, 1959, inclusive,  
13 the authorized percentage increase was quoted as 157  
14 per cent while railway revwnue increase was reported  
15 as 58.3 per cent but Mr. J. J. Frawley gave ample  
16 and very convincing evidence that the maximum amount  
17 was being charged in many cases. At this same hearing  
18 Commissioner Leonard Knowles described how the  
19 waybill analysis was prepared and used in arriving at  
20 a basis for freight rate increases.

21 41. We have nothing but respect for the members  
22 of the Board of Transport Commissioners and a sincere  
23 appreciation of the work they do. We also appreciate  
24 the usefulness of the waybill analysis for a good  
25 many purposes and understand all the work which goes into  
26 its preparation also how carefully it is done as  
27 perhaps the only way in which the information it gives  
28 can be prepared.

29 42. We still feel however, that there must be  
30 some factors or some circumstances not given full





1 recognition in relating these figures to prospective  
2 rate increases as bases, for the following reasons:-

3 43. 1. That the increases on the bases permitted  
4 the carriers have not been realized, as  
5 per paragraph 40 above.

6 44. 2. That if these authorized bases include  
7 such items as loss in other railway  
8 departments, such as passenger traffic  
9 they should be removed. (more about this  
10 later.)

11 45. 3. That every increase in railway freight  
12 rates permits highway truckers to compete  
13 in ever lower classes of freight; that  
14 the competition so engendered may have  
15 a further effect upon railways and scale  
16 authorized, than is fully recognized.

17 46. 4. That while the waybill study is based  
18 on actual traffic, it is on traffic  
19 which has moved without any guarantee  
20 that the traffic upon which the increases  
21 are proposed to apply will remain  
22 constant enough in detail of ratio of  
23 classes, volume and subjection to agreed  
24 charges etc. to produce the anticipated  
25 results.

26 47. 5. While consideration seems to be given  
27 to the economic status of the carriers,  
28 it is not apparent that the economic  
29 status of the customers whose goods the  
30 rates must move gets much attention.







1 48. Void.  
2  
3 49. 6. Perhaps, as in a sound commercial budget,  
4 reasonable and fair protection against  
5 circumstances reasonably anticipated to  
6 affect the situation should be considered  
7 such as the fact that goods or services  
8 not moving under present prices will  
9 hardly do so under a higher price.

10 50. We do not pretend to know all the detail of  
11 this basic construction and there may be mitigating  
12 circumstances but from the effect created we cannot  
13 make them seem realistic.

14 51. We are however quite well posted upon the  
15 effect of the distribution of the resulting horizontal  
16 increases on a percentage basis as they pertain to our  
17 territory. We know they are a detriment to  
18 the development of new industry, to the retaining of  
19 what we have and to the general welfare of the  
20 Lakehead and Northwestern Ontario.

21 52. In a district such as Northwestern Ontario  
22 where a considerable tonnage of basic goods must be  
23 moved comparatively long distances this percentage  
24 method of distributing the burden of increases is  
25 absolutely unfair and the increases are worsening the  
26 very situation they were supposed to cure as far as  
27 the railways are concerned.

28 53. If all traffic was subject to agreed charges  
29 or competitive commodity rates then of course nobody  
30 would pay the maximum rates. But in our territory  
there are less than a dozen agreed charges held out of





1 the nearly 900 in existence in Canada and few shippers  
2 whose application for participating in others would,  
3 seemingly, stand much chance of success. Consequently  
4 it is in territory such as Northwestern Ontario that  
5 so-called "captive traffic" exists and pays the lion's  
6 share of increases. It was admitted by the  
7 railways in a hearing in 1958 that about 75% of a  
8 proposed increase would be extracted from 32% of the  
9 traffic and from districts where the extensive road  
10 competition prevalent in some eastern sections did  
11 not exist. Northwestern Ontario is no exception.

12 54. While detailed statistics are not available  
13 the following are specific cases quoted from letters  
14 in our possession which do demonstrate the situation  
15 as follows:-

16 (a) "Domestic freight rates both inward and  
17 outward reflect against this place particularly  
18 as they bear the full impact of recent hor-  
19 izontal increases. Certain rates were  
20 increased by \$11.80 per ton whereas a com-  
21 petitor elsewhere, originally paying .35¢  
22 per hundred pounds less, had an eventual  
23 increase of only \$6.60 per ton as against  
24 the \$11.80 paid by us." These people also  
25 say: "There is no apparent discrimination  
26 in rates published to and from here when  
27 compared with other places in Northwestern  
28 Ontario. Truckers will meet rail  
29 rates but they show no inclination to reduce  
30 below rail rates." So this firm is "most





1 definitely" against any further horizontal  
2 increases on a percentage basis because rates  
3 in the east and far west give competitors a  
4 decided advantage and "consequently successive  
5 horizontal increases impose a transportation  
6 cost burden upon us out of all proportion  
7 to product sales value on a competitive  
8 domestic market."

9 55. The name of this location is withheld for  
10 commercial reasons but we are prepared to  
11 demonstrate authenticity of quotation to  
12 Commission in confidence if necessary.

13 56.(b) On April 16, 1959 Mr. H. Styffe of Port  
14 Arthur, Ontario gave evidence before the  
15 Committee on Railways, Canals and Telegraph  
16 Lines in Ottawa that the timber firm  
17 of which he is vice-president had been ex-  
18 cluded from operating in certain territories  
19 in Northwestern Ontario and from certain markets  
20 previously enjoyed because rates on pulpwood  
21 had risen between 1956 and 1958 by almost  
22 six dollars per cord.

23 57.(c) There are other similar cases but the above  
24 are typical.

25 58.(d) In the report of the Turgeon Commission  
26 dated February, 1951, page 51, are summarized  
27 complaints they had received under six headings  
28 outlining good and sufficient reasons for  
29 the Commission's conclusions on pages 61  
30

- 62 of the same report as follows:-







1 (i) "Applications for uniform horizontal  
2 increases to all freight tolls assume that  
3 all freight can, under all conditions, bear  
4 an equal burden of increase. This is an  
5 incorrect assumption.

6 (ii) Horizontal increases, although preserving  
7 rate relationships percentagewise, distort  
8 them in cents per 100 pounds (or other unit)  
9 in so far as shippers and consignees are  
10 concerned, and this is of much importance  
11 to them.

12 (iii) Horizontal increases aggravate the disad-  
13 vantage already suffered by long haul shippers  
14 and consignees.

15 59. We believe that these reasons and conclusions  
16 are still valid and have in fact been worsened since  
17 the Turgeon report by further increases. We also  
18 believe that due to the conditions we have explained,  
19 our territory is bearing an unfair burden due to this  
20 cause, so that while carriers may justly claim  
21 that their rates are not the only cost items which  
22 have risen, they have nevertheless helped other items so  
23 to do. With merchants these increases have tended  
24 to encourage a buyers market to which increases  
25 cannot so readily be passed along. In the surround-  
26 ing towns created by mines, mills timber industry etc.  
27 these indirect features have a direct influence upon  
28 industry operation and the retaining of employees who  
29 are just as sensitive to cost of living rates as are the  
30 railway employees or any other group.





60. It is the earnest belief of these Lakehead Chambers of Commerce that freight shippers and consignees should not be called upon to pay for losses sustained in other railway services except as individual members of the general public for whom those other services have been organized and maintained; also that in assessing any proportion of costs common to various railway services only a fair and reasonable ratio should be charged to the freight service in the way of freight rates. It is also their belief that freight rates have now reached a level where the railways stand to lose rather than gain revenue through further horizontal increases made and assessed without some changes in method.

61. The Chambers of Commerce of Port Arthur and Fort William therefore recommend that the Royal Commission on Transportation:-

- (a) Give prompt and fair consideration to the basic factors of necessity and equity as evident in determining bases for freight rate increases and .....
- (b) Seek a more equitable and realistic method of distributing the burden of freight rate increases and as far as reasonably possible in the matter of horizontal increases adopting a cents per hundred pounds basis and elimination the unfair percentage basis.

62. We feel that the plan suggested in Winnipeg is very much preferable to the present one but do regret







1 that apparently it was not found possible to dispense  
2 entirely with the percentage basis even in the lower  
3 rates adjustment. It seems however, necessary  
4 to adopt a sort of reverse tapering to avoid making  
5 the lower rates unreasonably high. This demonstrates  
6 that the whole rate structure has reached a level that  
7 is unreasonable as to basis and in its relation to  
8 supply and demand or other public economic status if  
9 only the high rates can absorb an increase without this  
10 unreasonableness being apparent. The fact of the  
11 matter is that increasing a rate does not increase its  
12 ability to move goods but rather decreases its  
13 value in that respect. Thus, just for the sake of  
14 argument, if it were possible to adjust the lower  
15 rate situation and so make a flat 100 pound increase  
16 across the board, then the easement in the assessment to  
17 the higher rates might produce enough extra traffic to  
18 more than compensate for the adjustment ----- but of  
19 course it would be in different pockets unless read-  
20 justed. (The plan mentioned in the first line  
21 of this paragraph is the one which "would allow half  
22 the revenue to be realized by assessing a flat cents per  
23 100 pounds increase while the balance would be obtained  
24 by a percentage increase." Hon. Duff Roblin, Winnipeg,  
25 February, 1960, Page 6, Paragraph 55.)

26 63. Joint Through Rates.

27 In land-water or land-water-land or water-  
28 land traffic our interests are both in the handling  
29 of through traffic and in the rates on local movement.  
30 In the former our interests lie in seeing through rates





1 that will move the maximum quantity of goods through  
2 our harbours as well as a differential under all-rail  
3 rates conducive to the same result.

4 64. We are not satisfied that the present con-  
5 ditions meet these requirements, nor, with all due  
6 respect for the Board of Transport Commissioners,  
7 are we satisfied with the apparent lack of considera-  
8 tion given a very short, but seemingly to us reasonable,  
9 our submission by us in support of a case submitted  
10 by Manitoba in this matter of a few years ago and turned  
11 down for reasons seemingly more academic than realistic.

12 65. Equalization sought to eliminate the use  
13 of trick mileages as rate bases (quite different from  
14 short alternate routes goods could actually travel by  
15 rail) but as far as the movement by water is concerned  
16 the basic mileage used is just that, while at the same  
17 time equalization was cited as reason for a big decrease  
18 in the differential as far as the Lakehead is  
19 concerned. Surely also it is a bit fantastic to  
20 relate rates on traffic via Lake Superior with  
21 Armstrong Ont., to reach which place, goods would  
22 have to travel east then north or north and then east  
23 more than a hundred miles from the Lakehead, when those  
24 goods are for Winnipeg or west of Winnipeg. Never  
25 are goods remotely likely to travel that way.

26 66. We are not overlooking the costs connected  
27 with this traffic such as handling etc. and some other  
28 complications both pro and con but neither are we  
29 overlooking certain traffic presently travelling  
30 over United States routes, nor the fact that present







1 conditions tend to induce traffic to pass by these  
2 ports by all-rail.

3 67. The Lakehead Chambers of Commerce therefore,  
4 recommend that the Commission: - CAREFULLY INVESTIGATE  
5 THAT PORTION OF JOINT THROUGH RATES ASSESSED BY VESSEL  
6 OWNERS AND THE PRACTICAL POSSIBILITY OF A DIFFERENTIAL  
7 UNDER ALL RAIL RATES MORE CONDUCTIVE TO USE OF THE  
8 JOINT SERVICE AND THE DIVERTING OF EAST-WEST TRAFFIC  
9 FROM UNITED STATES HIGHWAYS.

10 68. Panama and Transcontinental Rates.

11 While it has in the past been conceded that  
12 carriers were not obligated to meet competition if  
13 they did not want the business at the competitive  
14 rate, still competition has been met between certain  
15 points that were detrimental to the interests of  
16 intermediate places. There have been actual cases  
17 where goods from Vancouver have been billed to Toronto  
18 and back to the Lakehead at a lesser cost than from  
19 Vancouver to Lakehead direct which on the face of  
20 things is surely absurd implying as it did an extra  
21 haul east and back of over 1600 miles. These particular  
22 cases have been eliminated.

23 69. But even when the rate from Vancouver to Toronto  
24 is the same as to the Lakehead, as it has been from time  
25 to time on certain classes of lumber, wood working  
26 industries and others here are deprived of actual  
27 mileage advantages to which in common justice they  
28 should be entitled.

29 70. Panama competitive rates have often been cited  
30







1 as the cause of these inequalities. If Panama  
2 rates apply to Toronto it should be conceded that  
3 now when we have larger boats coming here from the  
4 east, Panama conditions should apply here also.  
5 Failure on the part of the railways to recognize  
6 these conditions could result in through cargoes  
7 eventually just as the method of application of increases  
8 on international traffic has brought lumber here  
9 from United States points while taking lumber to  
10 Sault Ste. Marie, Michigan at lower rates from  
11 British Columbia than from the same points to  
12 the Lakehead.

13 Rail rates on lumber at time of writing  
14 (March 1960) quoted as follows:-

15 British Columbia Coast to Lakehead 1.66 per  
16 100 pounds.

17 British Columbia Coast to Toronto 1.58 per  
18 100 pounds.

19 U.S.A. Points to Toronto 1.58 per 100  
20 pounds.

21 71. The Chambers of Commerce at the Lakehead  
22 respectfully request that the Commission give serious  
23 thought to further examination of inequitable status  
24 of intermediate points.

25 72. Agreed Charges

26 We have listed Agreed Charges under the  
27 heading of inequalities, not because we are protesting  
28 them in general but simply because they cannot help  
29 being a disturbing factor in their application as  
30 affecting the idea of equalization and a considerable





1 number of comparatively small and some fairly large  
2 shippers and consignees the details of whose business  
3 does not allow them to participate in these charges.  
4 Individually these businesses may not represent much  
5 of a case but collectively in our territory they do  
6 as they must in other situations like ours.

7 73. It is only natural that in the larger centres  
8 with more and larger industries, more agreed charges  
9 will be granted and thus be a factor in preventing  
10 decentralization, the opening of branch factories, or,  
11 in other words, development in our territory.

12 74. It would be foolish to protest this type of  
13 rate as long as it is compensatory because the railways  
14 have apparently found that they were necessary to move  
15 the goods they cover or to obtain volume against  
16 competition and without volume the railways are sunk.

17 75. But if this "New Look" is applicable fairly  
18 in the matter of agreed charges it should be equally  
19 applicable in rates to assist economic development in  
20 territory like ours for the very same reason, namely  
21 the welfare of the country and of the carriers by  
22 increased volume of traffic.

23 76. This confirms our recommendation earlier in  
24 this brief and unless something is done along these  
25 lines we can only repeat part of a decision by the  
26 Interstate Commerce Commission (235 ICC 485) wherein  
27 it was recognized that economic, industrial and  
28 transportation conditions in the United States had  
29 materially changed and that so-called "Unjust Dis-  
30 crimination" is not a loose generality, but rather a







1 question of fact depending upon the circumstances of  
2 each case. This is lifting the taboo on that  
3 terrible word which we have so far refrained from  
4 using though by no means denying its existence.

5 77. Crow's Nest Pass Rates on Grain and Flour.

6 We have not entered the controversy regarding  
7 these rates because while we, as the world's largest grain  
8 shipping point are very much interested in rates from  
9 the prairies and from the Lakehead to world markets  
10 which will move the grain and keep our terminal elevators  
11 busy, we recognize the fact that rates are not the  
12 only factor involved in the grain movement and that  
13 the solution of this problem lies with the grain interests,  
14 the carriers and the Government.

15 Our part in this movement lies in the efficiency  
16 with which the handling is conducted at the Lakehead.  
17 We have been pleased to receive letters from overseas  
18 expressing appreciation of this efficiency, especially  
19 in dealing with some new and unique conditions in  
20 connection with ocean ships. Also in dealing with  
21 an opening rush, inexperienced crews, improper ship  
22 equipment etc. which might have caused much delay.

23 79. Much credit is due The Lake Shippers Clearance  
24 Association in this service which is unique in world  
25 grain shipping. The "lakers" just naturally took  
26 it all for granted but the "salties" found it a new  
27 experience, liked it and say they are coming again.  
28 There were of course a few that were absolutely un-  
29 fitted for grain service which should never have come  
30 here at all.





1 80. Welland Canal Tolls.

2 There is one feature however which concerns  
3 not only the grain movement but most of all lake  
4 movements to and from these ports, namely tolls on  
5 the Welland Canal as follows:-

6 81. Up to the time of the opening of the St.  
7 Lawrence Seaway (which by the way extends only from  
8 Montreal to Lake Erie) this canal service was free.  
9 Now, however its tolls act as a discriminating factor  
10 against traffic west of the Welland. In connection  
11 with the grain from here they discount the anticipated  
12 saving from reduced handling. On general cargo  
13 westbound they are a factor in promoting such movements  
14 as from Montreal or Toronto via highway trucks over  
15 United States highways to western Canada. They  
16 work against our iron ore to Hamilton Ont. and any points  
17 east of there.

18 82. This canal is, was and always will be a  
19 Canadian institution quite different from the part  
20 of the Seaway east of Lake Ontario and it seems quite  
21 obvious that little consideration was given to any  
22 Canadian interests west of Hamilton when tolls were  
23 assessed thereon as part of the amortization programme  
24 which also covers the eastern portion of the Seaway  
25 where the big power project exists which is of no  
26 use to us in the west.

27 83. Naturally we are not overlooking the fact  
28 that ore from Seven Islands will contribute to defraying  
29 Welland operating costs etc. but neither are we  
30 overlooking the fact that U.S. interests could seek





1 to retaliate by tolls at Sault Ste. Marie, Michigan,  
2 where they are providing all the service worth mention-  
3 ing as the Canadian lock is no longer practical.

4 84. The Chambers of Commerce of Fort William and  
5 Port Arthur therefore recommend that the Royal  
6 Commission on Transportation:-

7 85. GIVE CAREFUL AND PROMPT CONSIDERATION TO  
8 THE DISCONTINUANCE OF ASSESSMENT OF TOLLS ON THE  
9 WELLAND CANAL.

10 86. Obligations and Limitations.

11 The second term of reference for the  
12 Commission was;

13 "the obligations and limitations imposed upon  
14 railways by law for reasons of public policy and what  
15 can and should be done to ensure a more equitable  
16 distribution of any burden which may be found to  
17 result therefrom."

18 87. To achieve fair but efficient transportation  
19 regulation under today's complications is not going  
20 to be an easy task, nor can it be done quickly. That  
21 it should be done, there is no doubt because our  
22 Railway Act still reflects conditions that are past  
23 and lacks attention to some that are new. Let us  
24 take a quick look at pre-trucking days.

25 88. Prior to 1887 when the Interstate Commerce  
26 Commission Act was passed, when the railways were  
27 abusing their monopoly and Mr. Wm. Vanderbilt's policy  
28 of "the public be damned" was in full swing, trans-  
29 portation regulation was demanded by the public.

30 Recourse to the courts was tried and found wanting as







1 remedies from the courts could only be obtained through  
2 actions for damages or criminal prosecution. So the  
3 I.C.C. came into existence as one of the earliest  
4 examples of administrative regulation of industry.  
5 However it took them until 1906 to overcome the  
6 prejudice, precedent and greed which delayed the  
7 effectiveness of the I.C.C.

8 89. Thus the Pattern was set for the Railways.

9 It was OK in 1906 to rule that the railways  
10 must accept almost any traffic offered them as it might  
11 have well been that some of the less attractive goods  
12 were being refused. Today it is not fair that  
13 truckers have no such obligations so they can, for  
14 instance, haul barrels filled with goods paying fair  
15 rates and force the railways to carry the empties which  
16 are bulky and unattractive as to rates. This is  
17 quoted as an example of the old and the new without  
18 regard to volume.

19 90. Regulating public safety measures, liability  
20 and contract obligations should be on as equalized a  
21 basis as possible, even though there is a big difference  
22 between equipment for which the railways are responsible  
23 and a trucking firm which does not necessarily have to  
24 own any of the trucks it operates.

25 91. When it comes to rates, real problems present  
26 themselves. Some of the responsible truck operators  
27 have told us they would welcome rules which could  
28 be enforced and which would prevent another type of  
29 trucker from disregarding any rate of classification  
30 regulations and accepting goods at bargain rates.





1 Nobody knows how much of this is done for no shipper  
2 is at all likely to report a bargain he may get again.

3 92. On the other hand the railways are "sitting  
4 ducks" in comparison, so perhaps outside of some basic  
5 factors, there could be some easement there on  
6 traffic common to both types of carriers.

7 93. The policy of the Chambers of Commerce is of  
8 course in favor of free enterprise, to refrain from  
9 prejudice, and to regard fair and legitimate competition  
10 as contributory to public economic welfare and concede  
11 the right to each carrier to take advantage of his own  
12 particular qualifications, but are well aware that  
13 unfair competition is neither legitimate nor profitable  
14 in final result.

15 94. This whole business of transportation re-  
16 gulation appears to present such a difficult problem  
17 that it seems much like the task of equalization.  
18 It does not seem at all possible that all interests will  
19 or can be satisfied and that considerable compromise will  
20 be necessary to arrive at a reasonable, realistic  
21 conclusion; perhaps almost complicated enough to  
22 form the terms of reference for a small group on  
23 its own.

24 95. The Lakehead Chambers of Commerce therefore  
25 suggest to the Commission:

26 THAT A CAREFUL REVIEW BE MADE OF ALL THE  
27 VARIOUS REGULATIONS PERTAINING TO CANADIAN TRANSPORTATION  
28 (WITH THE EXCEPTION OF SUCH ACTS AS THE CANADA SHIPPING  
29 ACT) WITH A VIEW TO SIMPLIFICATION AND A REALISTIC  
30







1 COVERAGE OF NECESSARY CONTROL ON AN ADMINISTRATIVE  
2 BASIS WHICH WILL ASSURE TO ALL CARRIERS THE NORMAL  
3 FREEDOM ACCORDED TO INDUSTRIAL MANAGEMENT. WE  
4 SUGGEST IF THE TERMS OF REFERENCE OF THIS ROYAL  
5 COMMISSION DO NOT ALLOW SUFFICIENT TIME DURING THE  
6 EXISTENCE OF THE COMMISSION TO CARRY OUT THIS VERY  
7 CONSIDERABLE UNDERTAKING, THAT THE FEASIBILITY BE EX-  
8 AMINED OF ITS COMPLETION OTHERWISE.

9 96. Passenger Service.

10 Plenty of evidence has already been submitted  
11 to the Commission to substantiate the claim that  
12 railway passenger services are losing money and outside  
13 of some reduction in costs from some branch lines  
14 closed, there does not seem to be much chance of  
15 improved earnings in that department.

16 97. As everybody knows the air service has cut  
17 into the railway passenger earnings and the new jets  
18 will cut further.

19 98. Air service has also cut into the express  
20 and mail services which were carried by passenger trains.

21 99. There seems to be sufficient evidence to  
22 support a decision that the freight service can no  
23 longer be used as an accountant's catch-all into  
24 which can be charged various and sundry debits that  
25 are difficult to dispose of otherwise though modern  
26 accounting equipment makes it easier to segregate  
27 costs than it once was.

28 100. Of course the ideal solution to the problem  
29 would be more population, seeing that it is unlikely that  
30 our Canadian Public will ever agree to halt in the





1 equipment race. (Naturally we refer to immigration.)

2 But the Commission's terms of reference presumably do  
3 not reach that department.

4 101. Consequently, the public as a whole have  
5 demanded a service which cannot be discontinued.

6 Revenue to cover this service is not obtainable through  
7 natural rate channels. This means just another  
8 item of inflation has been created to the extent of  
9 the deficit, for the account of the Public as a whole,  
10 but not properly through freight rates where its  
11 distribution is inequitable and it tends to hamper  
12 revenue still further as already explained.

13 102. The Lakehead Chambers therefore suggest to  
14 the Commission:

15 THAT NET LOSSES SUSTAINED BY THE RAILWAYS OF  
16 CANADA IN PASSENGER SERVICE PROVIDED FOR THE PUBLIC  
17 INTEREST ARE NOT PROPERLY CHARGEABLE TO THE FREIGHT  
18 SERVICE AND SHOULD BE MET FROM THE FEDERAL TREASURY  
19 PROVIDED THAT THE CARRIER HAS MADE ALL REASONABLE  
20 EFFORT TO ELIMINATE OR AT LEAST MINIMIZE THE LOSSES.

21 103. Of course that arrangement means subsidy  
22 we suppose and whether we like that word individually  
23 or collectively means little. In this case however  
24 if the public knew that this particular subsidy was  
25 actually costing them money for this particular purpose,  
26 it is more than likely there would be far less opposition  
27 to abandoning unprofitable lines. In fact the  
28 public knowing they were still paying for services  
29 they had wanted but wanted no longer, might even  
30







1 encourage the railways to stop it -- and protest  
2 loud and fast if it were not done quickly enough.

3 104. The Lakehead Chambers of Commerce therefore  
4 recommend:

5 THAT WHEREAS THE FINANCIAL REPORTS OF THE  
6 CANADIAN RAILWAYS CONTAIN SO MUCH INFORMATION IN SUCH  
7 HUGE FIGURES THAT TO OTHERS THAN FINANCIERS, INVESTORS,  
8 COMPETITORS AND SOME OTHERS, IT IS NOT EASY FOR THE  
9 GENERAL PUBLIC TO REALIZE THE PART THEY PLAY THEREIN.  
10 IT IS OUR OPINION THAT THE ISSUING OF SOME SEPARATE,  
11 CONCISE, FACTUAL INFORMATION REGARDING ITEMS  
12 SUCH AS OPERATING UNPROFITABLE LINES MIGHT BE WORTH  
13 CONSIDERING AS TENDING TO PROMOTE CLEARER UNDERSTANDING  
14 AND GREATER APPRECIATION.

15 105. More Efficient and Economical Railway Trans-  
16 portation Incentive Rates.

17 The third specific term of reference for the  
18 Commission is: "the possibilities of achieving more  
19 economical and efficient railway transportation."

20 106. As this term of reference mentions railway  
21 transportation only it puts a limitation on our  
22 remarks on the subject, for, as representing the  
23 Chambers of Commerce and consequently neutral we  
24 can hardly say much about diversion of traffic.

25 107. But the railroads' particular field is in  
26 the movement of volume traffic for which they are par-  
27 ticularly adapted; also in moving basic materials  
28 to consuming markets. To secure new fields of  
29 basic material such as exists in abundance in North-  
30 western Ontario it involves development of potentials







1 which can come by way of Incentive Rates of one sort  
2 or another including incentive car loading. A  
3 case of this in the United States was where a railroad  
4 which had rates on butter based on 25,000 and a  
5 30,000 pound minimum per car, provided new rates on 35,000  
6 40,000 and 50,000 pound minimum. Compared with  
7 the 30,000 minimum these new rates represent an  
8 average reduction of 12% on a 35,000 pound minimum car  
9 and 27% on carloads of 50,000 pounds or more and the  
10 carriers claim the rates are now compensatory. This  
11 is a pretty good illustration of how seriously some  
12 roads at least are considering new conditions and  
13 incentive rates.

14 108. Naturally, there is no such quantity of  
15 butter in our hinterland but there are other commodities  
16 such as wood, lumber, minerals, pulp etc. in connection  
17 with which incentive rates and incentive loading should  
18 apply if potential traffic is to move and present  
19 industries enjoy even a moderate rate of economic  
20 prosperity.

21 109. Multiple car rates have also been used on the  
22 other side of the line but these are probably closely  
23 enough related to our agreed charges to be covered by  
24 them. But they demonstrate a trend.

25 110. If the trucking industry with the help the  
26 railway increases have given them can participate in  
27 this business they just naturally are going to do  
28 so as is their right.

29 111. We therefore suggest to the Commission:  
30





1 THAT THE RAILWAYS REASSESS THIS VOLUME TRAFFIC SIT-  
2 UATION AND GIVE REALISTIC CONSIDERATION TO INCENTIVE  
3 RATES AND INCENTIVE LOADING AS MEANS TO IMPROVEMENT  
4 IN VOLUME TRAFFIC REVENUE.

5 112. Technological Improvements

6 As mentioned earlier in this brief, the direct  
7 result of dieselization and other changes upon the  
8 population and economic status of various places in  
9 our area is plain to be seen. But that there is  
10 an indirect compensating benefit to the people through  
11 these changes is not so evident. Certainly freight  
12 rates do not show it unless in a negative way -- that  
13 they might have been higher without these results  
14 whatever they may be.

15 113. Two items in the list of railway expense  
16 which might be expected to reflect some of these  
17 savings are "Maintenance of Equipment" and "Trans-  
18 portation". Using Canadian Pacific figures for  
19 the years 1948 as low; 1953 and 1954 as building up; 1956  
20 as high; 1957 and 1958 as decreasing in the total cost,  
21 we find the following:-

22 (In millions of dollars)

	<u>1948</u>	<u>1953</u>	<u>1954</u>	<u>1956</u>	<u>1957</u>	<u>1958</u>
23 Maintenance of						
24 Equipment	72.520	101.731	89.588	103.597	98.966	97.430
25 Transportation	<u>154.069</u>	<u>184.861</u>	<u>172.264</u>	<u>190.022</u>	<u>178.414</u>	<u>168.781</u>
26	226.589	286.592	261.852	293.619	277.380	266.211
27						

28 This shows (for what it is worth) a decrease from  
29 the high of 1956 to 1958 of approximately \$27 million;  
30 yet 1958 saw the 17% freight rate increase come into







1 effect despite protests.

2 114. Of course there is more to it all than these  
3 few figures which are only shown as trends. Other  
4 centres with better opportunity than have we to  
5 secure further data as to savings brought about by  
6 automation etc. are also seeking this information  
7 from the railways. The items shown above are  
8 those probably most affected.

9 115. These changes have cost the Lakehead plenty  
10 in the way of handling coal, extra engine crews and  
11 otherwise all reducing the railway pay-rolls and our  
12 merchants' sales. Yet in the case of every  
13 increase the public has been told prior to its  
14 authorization that the increase was necessary to meet  
15 demands for further wage increases by railway  
16 employees. The press, radio and television all  
17 share in these announcements which influence public  
18 opinion.

19 116. It is not within the scope of this brief to  
20 comment upon these wage demands, as to their merits  
21 etc. though they cannot be overlooked as basic costs  
22 and the methods of application to different services  
23 could have an immense effect upon the freight service  
24 costs.

25 117. It does appear however that the Lakehead is  
26 losing out both ways: through decreased spending  
27 power by local railway employees and then through  
28 horizontal rate increases on a percentage basis  
29 which in effect magnifies the amount we pay for  
30





1 increased wages for others. This is more factual  
2 than paradoxical even though the actual amounts  
3 involved are not available.

4 118. But the point we want to make is, that having  
5 paid for or still paying our share (and perhaps  
6 more than our share) of these changes we are seemingly  
7 within our rights in wondering what economic benefits  
8 have actually resulted and how distributed.

9 119. The Chambers of Commerce of Fort William and  
10 Port Arthur therefore suggest to The Royal Commission  
11 on Transportation that: WHEREAS THE EFFECT OF  
12 TECHNOLOGICAL IMPROVEMENTS BY THE RAILWAYS IS A  
13 BASIC FACTOR IN THE ECONOMIC STATUS OF THE RAILWAYS,  
14 AND THE DISTRIBUTION OF ANY ECONOMIC GAINS DERIVED FROM  
15 THOSE IMPROVEMENTS CAN AFFECT FINANCIAL RESULTS  
16 REPORTED IN VARIOUS RAILWAY DEPARTMENTS, AND WHEREAS  
17 THERE SEEMS TO BE NO OFFICIAL INFORMATION AVAILABLE  
18 CONCERNING THESE GAINS AND THEIR DISTRIBUTION; WE  
19 CONSIDER THAT THE AFORESAID INFORMATION SHOULD BE  
20 MADE AVAILABLE TO THE COMMISSION AND THAT THE COM-  
21 MISSION BE REASONABLY ASSURED THAT ALL OF SAID  
22 BENEFITS WHICH IN THE OPINION OF THE COMMISSION  
23 SHOULD FAIRLY AND REASONABLY ACCRUE TO THE LESSENING  
24 OF THE BURDEN OF FREIGHT RATES ARE CREDITED IN SUCH  
25 MANNER AS TO PRODUCE THAT EFFECT.

26 120. "In Transit" or Stop -Off Privileges

27 There is a stop-off rate at Minneapolis,  
28 Minn. and Duluth-Superior on lumber for processing  
29 of \$5.28 per car, while at Port Arthur, Ont. the  
30 stop-off rate is \$26.25 on a minimum car of 50,000







1 pounds at five and a quarter cents per hundred works  
2 out to \$26.25 (C.F.A. 235 on lumber and poles).

3 121. This big difference is a most serious handicap  
4 against one of our best, long established firms in  
5 Port Arthur which has earned a nation-wide reputation  
6 for its integrity and sound business practice and which  
7 we are anxious to keep in business.

8 122. This firm is actively engaged in the production  
9 and manufacture of forest products from the raw  
10 state to lumber, poles, piling and ties and in further  
11 processing of these products by preservatively  
12 treating them. They also do custom treating and  
13 milling of customers' material.

14 123. The vast majority of their freight traffic is  
15 by rail and this amounted to approximately \$817,000 in  
16 1958 and \$655,000 in 1959.

17 124. The raw material they bring in from local  
18 points on a 60,000 pound minimum runs from \$2.20 to  
19 \$5.80 per ton but the material they bring from  
20 British Columbia coastal points costs them \$1.66 per  
21 hundred pounds (lumber) as against \$1.58 from the same  
22 points to Toronto or from United States points to  
23 Toronto. They only got an adjustment on what  
24 they reship.

25 125. In processing they add about ten percent  
26 to the weight of the goods, thus adding to railway  
27 revenue and on this they pay at the rate of 61 cents  
28 per 100 pounds to Toronto; thus a car of 50,000  
29 pounds inward weight when forwarded would work out  
30 as follows:-







Costs added to inward rates ---

Stop off on inward weight at 5½ cents per 100 pounds \$26.25

10% added weight, 5,000 lbs.

Port Arthur to Toronto 61¢ cwt. \$30.50

\$56.75

On the inward weight when the rate to Port Arthur is more than the through rates as in paragraph 124, being eight cents more from B.C. to Port Arthur than to Toronto (which is absurd on the face of it) an adjustment to the through rate is made on the inward tolls when reshipment is made.

126. Surely in woods products business Canadian firms should be encouraged to develop the great potential which exists, but a stop-off charge of \$26.25 here as against \$5.28 for firms in Minneapolis which are in direct competition with the local firm, especially when the stop-off adds extra weight and revenue for the carrier, is discouraging and is actually losing business for Canadian railways right now according to investigation by this Canadian company.

127. If this case is a criterion of the stop-off policy of our Canadian railways then it is time that policy was investigated in the best interests of all concerned, for unless there are extenuating circumstances of which we are not aware, it looks like an example of pricing some good Canadian enterprises out of business.

128. The Chambers of Commerce of Port Arthur and





1 Fort William therefore recommend that the Commission:  
2 GIVE PROMPT AND CAREFUL CONSIDERATION TO "IN TRANSIT"  
3 AND STOP-OFF RATES AS ASSESSED BY CANADIAN RAILWAYS  
4 AND THE ECONOMIC INFLUENCE OF THESE RATES IN ATTRAC-  
5 TING OR DIVERTING TRAFFIC TO OR FROM CANADIAN RAILWAY  
6 LINES IN CANADA.

7 129. Assets and Earnings of Railway Companies  
8 in Businesses and Investments Other Than  
9 Railways.

10 The fourth term of reference reads as follows:

11 "(d) Whether, and to what extent the Railway Act  
12 should specify what assets and earnings  
13 of railway companies in businesses and  
14 investments other than railways should be  
15 taken into account in establishing freight  
16 rates."

17 130. The working of the above seems to classify the  
18 railway interests into Rail and Non-Rail groups.

19 Such grouping is probably satisfactory for  
20 the carriers' own internal needs as to operating costs  
21 etc. but as a basis for freight rate construction, a  
22 grouping of Freight, Passenger and Sundry services  
23 would seem to be more practical though perhaps  
24 somewhat more difficult to arrive at.

25 131. We have already expressed our opinion that  
26 passenger department experience should be omitted  
27 from the freight rate situation. (Paragraph 60 of  
28 this statement.)

29 132. Void.

30 133. If, by rates, sufficient revenue cannot be







1 obtained for the service used to pay for the service  
2 provided and other debit items, and it is deemed  
3 necessary to maintain that "provided" service; then  
4 additional revenue must come indirectly from the  
5 public by way of subsidies. So we have:

6 (a) Freight rates payable by shippers and consignees  
7 using the services, based on what the traffic  
8 will bear.

9 (b) Extra cost of maintaining services for the  
10 use of the general public in excess of that  
11 actually used; payable by the public by way  
12 of subsidies.

13 134. Only a careful and detailed analysis of the  
14 "earnings and assets" items in the Non-Rail class  
15 in the term of reference will give sufficient data  
16 as to their proper relationship to the freight service  
17 and to a realistic freight rate structure.

18 135. We believe that if and when a principle is  
19 established along these lines that the Railway  
20 Management is capable of supplying the necessary  
21 information and assurance of assistance in arranging  
22 details of application.

23 136. The Chambers of Commerce of Port Arthur and  
24 Fort William therefore recommend that the Commission:  
25 UNDERTAKE A FULL INVESTIGATION OF NON-RAIL ASSETS  
26 AND EARNINGS OF THE CANADIAN RAILWAYS ALSO ALL  
27 OTHER TRANSPORTATION AGENCIES OR INTERESTS NOT  
28 CLASSIFIED AS "RAIL". DETERMINE FROM THAT  
29 INVESTIGATION WHAT CHANGES IN THE CLASSIFICATION  
30 OF ACCOUNTS ARE NECESSARY TO IMPLEMENT A FAIR AND





1 REALISTIC FREIGHT RATE STRUCTURE.

2 137. Various local agricultural interests have  
3 filed serious complaints with us concerning local  
4 rates and protesting against any further increases.  
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1 CROSS-EXAMINATION BY MR. BURBIDGE:

2 Q. Mr. Charnock, I gather that the policy  
3 of the Chambers of Commerce is that there should be  
4 free enterprise in transportation?

5 A. That is right.

6 Q. And it follows from that that the  
7 Chambers of Commerce are in favour of financially  
8 sound railways?

9 A. Yes.

10 Q. And financially sound railways are  
11 necessary to the economic well-being of Canada; you  
12 would agree with that?

13 A. I would enlarge on that a little bit:  
14 it was announced a little time ago that a prosperous  
15 railroad indicated a prosperous community, but the  
16 railroad cannot be prosperous unless the community  
17 is prosperous in order to give them traffic.

18 Q. I take it that the Chambers of Commerce  
19 are fundamentally in agreement with the proposition  
20 that railways should be financially sound?

21 A. Among our membership of the Chamber there  
22 are both railways and numerous trucking outfits and  
23 steamship lines as well; so, the answer is "yes".

24 Q. I gather the position of the Chambers of  
25 Commerce is that it is in the best interests of the  
26 public if there is fair and legitimate competition  
27 between the various mediums of transport? You speak  
28 about that at page 20 of your brief?

29 A. Yes.  
30







1 Q. Now, you answered a minute ago that the  
2 Trans Canada Highway, if and when it is built through  
3 here and completed, will be done with federal money  
4 to a large extent. What is the position of the  
5 Chambers of Commerce if the truckers bear in some way  
6 the share of the costs of that highway in order that  
7 the competition between the railways and the trucks  
8 be on a fair and legitimate basis?

9 A. Well, that is asking us to extend our  
10 neck considerably.

11 Q. You wouldn't like to extend your neck?

12 A. We believe in fair and just competition,  
13 and we, as mentioned in this brief and other places,  
14 have said that if the railways from natural sources  
15 did not provide enough, sufficient to take care of  
16 what was provided, then there was only one way to get  
17 at it, and that is through indirect assessment to the  
18 public for what the public wants, and that brings in  
19 that dirty word "subsidy", and you can't get away from  
20 it.

21 Q. I didn't want to take advantage of  
22 Mr. Hume's questioning, but when Canadian Trucking  
23 Associations appeared they said that they were paying  
24 their fair share of highway costs. My point is that  
25 where you have a highway built, not with provincial  
26 money but with federal money, for which there is no  
27 compensating federal gasoline tax, what would the  
28 position of the Chambers of Commerce be as to some  
29 charge against the truckers?  
30

A. I cannot speak for all the Chambers of





1 Commerce. That would be a matter of the Canadian  
2 Chamber to set a specific standard for that, and I  
3 don't think that the Chamber would want to commit  
4 themselves along the lines that you have put out quite  
5 as definitely as you have indicated, because the  
6 Chamber believes in fair competition, but they also  
7 do not believe in unfair competition, and if it can  
8 be shown that a set of carriers are getting any unfair  
9 advantage over any other set of carriers, then the  
10 Chamber would definitely not want to participate in  
11 that. On the other hand, if it could be shown by  
12 the truckers or others that their competition is fair  
13 and just, well, then, the policy of the Chamber is to  
14 go along with that.

15 Q. I see. Now, it is the policy of the  
16 Chamber, I gather, that regulation should be held  
17 to a minimum, regulation of transportation; is that  
18 correct?

19 A. It should be held to a minimum and it  
20 should also be put on a realistic basis.

21 Q. And by a realistic basis you mean that  
22 management should be left as free as in industry  
23 generally. Is that what you mean?

24 A. That is what I mean. In other words,  
25 that they should be given, the carriers should be given  
26 the same treatment as any other business, the management,  
27 and so on, as in any other business, and the regulation  
28 by management, and so on, is more easily worked and as  
29 a general thing -- works out better than management by  
30 legislation, provided that we must maintain the rights







1 of the public to protest, if necessary. In other words,  
2 we wouldn't say that any government body should have  
3 the entire right to say this or that in the economic  
4 policy without the public having some chance to protest  
5 if and when it was quite evident that they should do  
6 so, that they had a right to do so. For instance --

7 Q. Perhaps I would give you an example.

8 I was going to discuss with you your comments on passen-  
9 ger transportation. I think you would agree with me  
10 that there has been probably the greatest change in  
11 passenger transportation in the last 10 years than the  
12 country has ever seen; is that correct?

13 A. Yes, that is right.

14 Q. And people are using jets and this has  
15 happened in a very short space of time?

16 A. Yes.

17 Q. You know that the railways are trying  
18 to adjust their passenger services to this reduced demand,  
19 passenger services are being reduced, in some cases  
20 eliminated and in some cases cut back, and you also  
21 know that the Board of Transport Commissioners has  
22 consistently held that passenger-freight services are  
23 inter-related and, if necessary, losses on passenger  
24 services should be taken into account in --

25 A. I don't hold with it.

26 Q. If the investment is there and the  
27 change having happened so fast, don't you think it would  
28 be like changing the rules in the middle of the game  
29 by saying that passenger losses should no longer be  
30 taken into account?





1 A. If somebody is committing fouls and  
2 getting away with it, you better stop in the middle  
3 of the game than let it go on.

4 Q. Are you suggesting that the policy of  
5 the Board in relieving passenger-freight losses is  
6 not reasonable and fair?

7 A. I don't like your term "fair". I would  
8 say it doesn't seem realistic to us that it should be  
9 so, because while the passenger service has undergone  
10 the changes that you mentioned, the freight service  
11 has also undergone a good many changes, and, as I  
12 point out here and point out thoroughly in the brief  
13 itself, there are limitations against the revenue  
14 which the railways can obtain under their normal freight  
15 rate conditions, and, speaking as an industrial account-  
16 ant, I feel that - I shouldn't say I feel - we feel  
17 that no longer can the freight rate situation be a  
18 sort of a catch-all into which he can charge any debits  
19 which would be hard to dispose of otherwise. When  
20 the railways got their charters it was laid down very  
21 distinctly what services they were to perform, and I  
22 think that the closer we get back to that old basis  
23 the better and that the different services should stand  
24 on their own, and I don't think that because the railroads  
25 have scrapped their fancy passenger service in order to  
26 carry passengers by air that the shipper out of the  
27 Lakehead or anywhere else should be called upon to  
28 pay the deficit which is represented in the loss in  
29 the traffics.  
30

Q. I am suggesting to you not that they have







1 scrapped their passenger service but there has been  
2 a tremendously reduced demand and this reduced demand  
3 has appeared very suddenly, and I suggest to you, do  
4 you not agree it is like changing the rules in the  
5 middle of the game, that the demand is now reduced  
6 tremendously and passenger services should be taken  
7 into account in computing your overall earnings from  
8 freight?

9 A. I think the best way I can answer that  
10 is simply to say that the term of reference under which  
11 that is taken care of here calls for suggestions as to  
12 improvements that can be made in the freight set up,  
13 and that we were quite right in our suggestion that it  
14 should be taken into consideration and at least in  
15 further increases, and so on, that the whole thing  
16 should be put on a more -- oh, business-like, if you  
17 want to say that, or realistic basis. For instance, with  
18 your increases -- if the C.P.R., for instance, were a  
19 mercantile firm, if you had goods on your shelves  
20 that were not moving at a dollar a unit, you would  
21 definitely not set to and price them up to two dollars,  
22 you would mark them down, otherwise the goods would  
23 stay on your shelves. Now, the railways are simply  
24 selling services instead of goods, and if you will  
25 see me after this session is over I will show you some  
26 references from American railways which will show that  
27 point very strongly and may be of assistance to you.  
28 But that is the way we look at it.

29 Q. Perhaps we can agree this far, that  
30 where the railway makes application to reduce passenger







1 service, and the people who didn't use the service  
2 before want it maintained, would the Chambers of Commerce  
3 support the situation that if a particular service is  
4 unremunerative, then the onus should be on the  
5 people who are opposing it to establish the necessity  
6 for its continuance. Would you agree with that, that  
7 the onus should be on them?

8 A. I would say that the onus should be  
9 on the public who have demanded this service and are  
10 demanding that it be continued, maintained, at a loss,  
11 and that the public should stand that, but that the  
12 burden of that should not be distributed through  
13 the process of freight rates because we figure that  
14 the distribution via the freight rate channel is not  
15 equitable.

16 Q. In the example where there is a particular  
17 service to be reduced and it is unremunerative and  
18 somebody comes along and the onus is on them that  
19 they establish that it should be retained, do you agree  
20 that the cost of that particular service should be  
21 borne by those particular people, that particular locality?

22 A. I don't know. I would leave that with  
23 the department. I wouldn't want to intrude on that.  
24 I would say that it would be fair that the public, and  
25 as to what section of the public - I mean, who is going  
26 to pay? Supposing there is a line from Winnipeg to  
27 Dominion City or somewhere that is no longer required  
28 but has been built and developed by the railways to  
29 meet public demand for that service, who is going to  
30 say whether you or I or anybody here might be desirous





1 of travelling on that line at some time. So I think  
2 the point you have raised there is worthy of considera-  
3 tion and that these subsidies are not going to go  
4 through without a considerable amount of argument, and  
5 that is a point that could very well be brought up.

6 Q. If there is to be a subsidy because  
7 of a particular service that is no longer required or  
8 which is unremunerative but which is only required  
9 because a certain locality or a particular group of  
10 the public requires it, then if they want it they should  
11 pay for it. That sounds sensible, doesn't it?

12 A. If you don't go any further, it does,  
13 but what is the position of that community? It would  
14 depend on the situation which would be brought out  
15 regarding each particular case.

16 Q. Does the same principle apply with  
17 regard to your suggestion with regard to development  
18 rates, that if an industry is to be assisted in some  
19 way, then the assistance should be paid or directed  
20 to that industry? That is what has been done under the  
21 Income Tax Act now. Is that not the proper approach?

22 A. Well, the approach, as I see it, is  
23 the point that was raised completely and very well in  
24 Winnipeg by the Honourable Gurney Evans, and I think  
25 that that gives your answer.

26 Q. I put this question to Mr. Phillips that  
27 that was the view of Mr. George Paul of Canadian  
28 Manufacturer's Association, and Mr. Paul said that in  
29 his view any subsidy to aid development should be paid  
30 directly to the people intended to be subsidized and







1 that the freight rate structure was an insufficient  
2 vehicle for passing on such assistance. Would you  
3 agree with that?  
4

5 A. I don't know what other vehicle you  
6 could use. If we are going to establish development  
7 rates, well, then, how else would you figure it could  
8 be done?

9 Q. If you are establishing development  
10 rates in order to assist a particular area or industry,  
11 and if you want to do that, my suggestion is that  
12 you should give the subsidy or assistance directly  
13 to the industry. You have exemption for three years  
14 under the Income Tax Act?

15 A. I think you can get your answer to  
16 that by studying Mr. Gurney Evans' representation --  
17 it is repeated here in this brief -- in that he cites  
18 the Maritime Freight Rates Act, the bridge subsidy,  
19 and so on, as possible, as ways and means by which the  
20 national policy is assisting in matters of that kind,  
21 and I think that is the fairest answer to the whole  
22 thing.

23 Q. On agreed charges, you said that there  
24 are less than twelve agreed charges operating in this  
25 area. My information is that there are 25. I suppose  
26 you would dispute that?

27 A. I have a list of ten.

28 Q. Perhaps we can compare lists?

29 A. If you want to. The fact remains that even  
30 if there are 25, that does not hold for our people.  
They might apply into here, but it is 25 out of approx-





1 imately 885 - a pretty small percentage. I have  
2 ten.

3 Q. Now, on statutory rates you said that  
4 you were not taking any position, but it has been  
5 suggested, and I suppose you are aware of it, that  
6 if anything is to be done about the statutory rates,  
7 then any assistance should be paid directly to the  
8 farmers in order that they can choose the medium of  
9 transportation that they desire. The Canadian truckers  
10 put this position before the Commission, and if that  
11 did occur, would it be the position of the Chambers  
12 of Commerce that the trucks that were to carry  
13 grain should be subject to the same obligations as the  
14 railways are with respect to the carriage of grain?

15 A. As far as we are concerned, there are  
16 no trucks carrying grain. There were three loads of  
17 barley loaded out from the Lakehead to points in the  
18 east, and when they got down to the destination there  
19 was just about enough left in the trucks to tell what  
20 had been there originally. I have not mentioned that  
21 problem because we feel it is not for us to intrude in  
22 it. We are well aware of it, we are interested in it,  
23 we are interested in the results, but, as I say, what  
24 we want to see is rates which will get goods into and  
25 out of our elevators.

26 Q. The Chamber is for fairness, you said,  
27 and it would be fair that if the trucks were carrying  
28 grain they would be subject to the same obligations  
29 as the railways?

30 A. I can only repeat that we stand for fair





1 competition, if and when the carrier is properly pre-  
2 pared to render the service.

3 MR. BURBIDGE: Thank you, Mr. Charnock.

4 THE CHAIRMAN: We will break for five minutes.

5 --- (A Short Recess)

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1 CROSS-EXAMINATION BY MR. MACDOUGALL:

2 Q. Mr. Charnock, just a couple of small  
3 matters I would like to speak to you about. I wanted  
4 to congratulate you on the work you have put into  
5 this brief?

6 A. Thank you, sir.

7 Q. I have had the pleasure of appearing  
8 at other places when you have been there, and I have  
9 always been impressed with the amount of work you put  
10 into these documents, and I am sure they are very  
11 helpful to those organizations before whom you appear.

12 The references you make to passenger services,  
13 which you discussed with Mr. Burbidge -- in connection  
14 with those I would like to put this thought to you,  
15 because I think it is in conformity with what you have  
16 said. In dealing with the problem of getting rid of  
17 passenger services which may be so lightly patronized  
18 that they form a deficit operation, I understand your  
19 position is that those deficits should not be passed  
20 on to the freight shipper, and that the services should  
21 stand on their own feet. Would you agree that where  
22 you have such a passenger service, and it cannot stand  
23 on its own feet because it does not make enough revenue  
24 to pay its costs, even its out-of-pocket costs, of  
25 operation, that in situations of that kind, if you have  
26 an alternative service, even though perhaps not as  
27 convenient as the passenger service -- but, perhaps,  
28 by bus or by the automobile of the individual on the  
29 roads -- but where that situation exists, it would be  
30 a good rule to follow that the railroad should be allowed





1 to get out of that passenger service, if it is a deficit  
2 operation, if there is some alternative for the  
3 public in the area concerned? Would you not agree  
4 that would be a good rule if we had that throughout  
5 the length and breadth of the country -- and people  
6 would know that that was the situation?

7 A. If you look at our recommendation in  
8 connection with that feature, you will see that we  
9 suggest that if a service is not remunerative, and so  
10 on, that then it should be payable by the public through  
11 subsidy, but we also indicate that provided the carrier  
12 has shown that every reasonable means has been undertaken  
13 to eliminate or minimize the loss, or deficit -- I  
14 think that probably answers the question. Besides that,  
15 you will see we made quite a lengthy recommendation to  
16 the Commission that the railways in their financial  
17 statements, or through possible means of additional,  
18 extra statements, should acquaint the public with  
19 losses of that kind, and that the public be made aware  
20 of the fact that a subsidy does not mean that money  
21 is coming out of the blue from somewhere; that they  
22 are paying it. Then, I think the public would be far  
23 less inclined to persist in the maintenance of that  
24 service, and I think if it could be put to them really  
25 effectively that they would not only get after the  
26 railways to discontinue it but they would get after  
27 the railways for any delay in doing it.

28 Q. Yes. I think we are in entire agreement,  
29 and I think perhaps it is just a difference of expression.  
30 My thought was, if the Board of Transport Commissioners







1 had two choices when the railway was coming forward  
2 -- perhaps with pressure behind them by municipalities  
3 in areas which didn't want these deficit operations --  
4 and the railway is before them saying that the service  
5 won't pay, if the Board had two choices -- one, where  
6 there was an alternative service in the area, and they  
7 told the railway to stop operating; or, a second choice,  
8 if there was no alternative service which they considered  
9 reasonable, and they found some service should be  
10 provided, then they would have the choice of saying,  
11 "You, the railways, provide the service, and if it  
12 is not going to pay its way the loss should be made up  
13 by somebody, either the local people or the national  
14 treasury", would you agree with that?

15 A. Yes, I do, and I want to go a little  
16 further: I think in our recommendation that the  
17 statement should be made so that people would realize  
18 it, but, people in our position probably get more chance  
19 to see some of those things than when you are actually  
20 working for the carriers. I have worked for the carriers  
21 on both sides of the line and I speak with a little  
22 experience. For instance, how many people in this  
23 particular room have the idea that all this transporta-  
24 tion business is something over and above their heads,  
25 and that they are not interested. There is not a man  
26 in this room or in this town or in this country, who  
27 is maintaining a household, but what he has to pay at  
28 least, I would say, a very conservative estimate of  
29 \$200 per year for transportation even though he may  
30 not hand a carrier a single cent directly. That is one





1 of the biggest things that we have had to contend with,  
2 and I am sure my friend Vic. Stechisin will agree  
3 with me that one of the biggest things to contend with  
4 is apathy. People will squawk when they are hurt,  
5 but they will not take any interest to put the position  
6 right.

7 Q. That is a very interesting comment.

8 I would like to take you to another subject at page 23.  
9 You mention in paragraph 109, "multiple car rates have  
10 also been used on the other side of the line but these  
11 are probably closely enough related to our agreed charges  
12 to be covered by them". Do I understand you to say  
13 that you think that it might be a useful tool to have  
14 available to have the railroads able to quote multiple  
15 car rates or quantity rates as they do in the United  
16 States?

17 A. Well, that is subject to a considerable  
18 amount of study. I think probably your agreed charge  
19 set-up, which they do not have in the United States,  
20 takes care of that situation fairly well. There is  
21 another funny point in connection with your agreed  
22 charges in that agreed charges are not subject to  
23 The Railway Act; they are subject to The Transport Act.

24 Q. Yes. The quantity rates though, it  
25 seems to me -- and I suggest to you -- would be a very  
26 useful thing to have in the Canadian freight rate  
27 structure, whereby a large producer of traffic could  
28 go to the railway and say, "I have got one hundred  
29 thousand pounds of ore" or, "I have got ten thousand  
30 cords of plywood, and I would like them moved to a certain







1 area", and a rate could be quoted which would be com-  
2 pensatory to the railway company and satisfactory to  
3 the shipper on a quantity basis, either train load or  
4 by tons or, somebody suggested earlier, by cords. Don't  
5 you think that would be a useful rate making principle?

6 A. There are rates in connection with cords  
7 now, but the trouble with that is that there is always --  
8 and I don't know what your experience is in transporta-  
9 tion -- but mine is that there is always, whatever you  
10 bring up a "oh yes" or a "but" or a "how come". The  
11 only trouble with that multiple car loading is that  
12 perhaps it is not too fair to the small or even the  
13 medium shipper.

14 Q. That is a basic argument that is always  
15 against it. Nevertheless, in our commercial world,  
16 which you spoke of earlier, we have the man who buys  
17 three gross of rubber boots and who gets a different  
18 price from the man who buys one pair. It is quite  
19 a common thing in commercial life, isn't it?

20 A. Well, for instance, I was interested  
21 in listening to the cases that have been given: with  
22 these agreed charges, for instance, you have, in every  
23 one of them, potential cases of inequity. The very  
24 fact that there is an agreed charge means that there  
25 is some concession made to some shipper.

26 Q. But, you have to remember, to be reasonable  
27 about it, that anybody in the same circumstances as  
28 the man who has an agreed charge is entitled to get  
29 a fixed charge if it is not offered to him?

30 A. Well ---







1 Q. That provision is in there to protect  
2 that person in the same relative position?

3 A. But, that is one of the things about our  
4 district: there are a number of firms in our district  
5 who have not got the volume in order to qualify for  
6 participation in these agreed charges.

7 Q. They don't have to have any particular  
8 volume; they just have to agree to give 70 per cent or  
9 80 per cent of what they ship -- and it may be one car  
10 or a thousand cars. They have to commit themselves  
11 for a certain percentage?

12 A. Not in order to apply for it, but you  
13 may have to in order to get it. I doubt if the railway  
14 would give any concession at all to certain shippers  
15 in our territory.

16 Q. Well, perhaps it will not help the  
17 Commission much for us to argue about that, but the  
18 fact of the matter is that that is the law -- any man  
19 is entitled to exactly the same treatment?

20 A. Getting back to your question there,  
21 your situation is explained in this way: as you know,  
22 in the Canadian freight classification there are tens  
23 of thousands of items listed, and practically every one  
24 of those items has several different rates -- at  
25 least, class applications according to the quantity  
26 shipped, and so on. So, it is logical it should be  
27 carried forward into multiple car loading, but probably  
28 I think that needs a little more consideration.

29 Q. Now, this morning Mr. Badanai, when he  
30 was making his presentation, spoke of what he called





1 the paradox of the situation, and these are his words:

2 "Merchandise under the existing rates can be shipped  
3 to Atikokan from Winnipeg cheaper than you can ship  
4 the same articles to that point from the Lakehead..."

5 I was going to ask you if you were familiar with the  
6 provision in the general merchandise and commodity  
7 tariffs, and the particular citation is C.N.R.W.950,  
8 C.T.C.No. W2303, quantity rates and general merchandise,  
9 from Fort William/Port Arthur to Atikokan, which are  
10 incentive rates and are provided for loadings between  
11 15,000 and 50,000 pounds, giving relatively low rates:  
12 22 cents on a 50,000 pound load to Atikokan. I was going  
13 to ask you whether you are agreed with Mr. Badanai that  
14 you didn't have incentive rates, you didn't have lower  
15 rates, than rates from Winnipeg to Atikokan right  
16 now on the tariff books?

17 A. I am not familiar with the particular  
18 case that Mr. Badanai had in mind.

19 Q. You are familiar with these incentive  
20 rates, though?

21 A. I understand it could very well be  
22 that such a thing would take place if perhaps the  
23 minimum was -- at least, the weight, and so on --  
24 if other circumstances were not equal.

25 Q. In any event, would you agree these  
26 incentive rates which are now in effect serve your  
27 area here -- I presume they are useful and good rates  
28 and you would like to see an extension of those?

29 A. The only trouble is that they came out  
30 too late and too little.







1 Q. I don't know that I can help you much  
2 with that, but, in any event, you think incentive rates  
3 are a good thing and you would like to see more of them;  
4 is that it?

5 A. Yes.

6 Q. My point is this, that you have some now  
7 -- and I hope that you get all that you feel you need  
8 to develop your traffic?

9 A. These C.N.R. rates which you speak of  
10 were put out after the trucks had made it apparent  
11 that it was necessary.

12 Q. Well, they are issued to meet truck  
13 competition; that is what they are there for?

14 A. Yes.

15 Q. On page 21, paragraph 95, you make what  
16 I consider to be an interesting observation there, and  
17 I take it that when you say this: "that a careful  
18 review be made of all the various regulations pertaining  
19 to Canadian transportation with a view to simplification  
20 and a realistic coverage of necessary control..."  
21 That what you are saying is that this commission should  
22 recommend that the legislation covering transportation  
23 -- The Railway Act and other acts -- should be looked  
24 at to see if they can recommend some simplification  
25 which would be helpful in the general handling of  
26 freight rate problems in Canada; is that your idea?

27 A. Yes, and I would go a little further:  
28 I would say the Commission could very well recommend  
29 to the railways that co-operation in that endeavour  
30 would more than likely be to their advantage.





1 Q. Yes, but would you agree with me on  
2 this proposition, that it might be a very good thing  
3 for Canada if this commission were to look at certain  
4 aspects of regulation and legislation which perhaps  
5 should be changed immediately in order to  
6 enable traffic to move more freely and remove obvious  
7 inequities, but, as a general rule, that at some later  
8 time some other body, perhaps, should review all the  
9 legislation that applies to the railways in Canada  
10 to see whether it could not be moderized and brought  
11 more into accord with present day conditions? Would  
12 you agree with that?

13 A. I think our recommendation is the  
14 answer to that, that we do. Because, we have pointed  
15 out that undertaking is big one and could very well  
16 extend beyond the reasonable life expectancy of this  
17 particular commission.

18 Q. I think we would agree it would be  
19 silly to suggest this commission should review the  
20 legislation, but I think it would be sensible if they  
21 made a review of the urgent things which should be  
22 changed, and then recommended a general review by  
23 some other body?

24 A. I think our submission covers that  
25 point, that the commission should go as far as they  
26 can in it and examine the feasibility of it being finished  
27 by some other means, if necessary. It is a big job.

28 MR. MACDOUGALL: I think that is all I have,  
29 Mr. Chairman; thank you very much.

30 THE CHAIRMAN: Thank you very much, Mr. Charnock.





1 I think I should say to those who are here  
2 that our colleagues left not out of contempt for the  
3 proceedings here, but because of the fact that we were  
4 anxious to have somebody on the Commission inspect  
5 the terminal and the port. We would not have been  
6 doing our job here unless we had done that, and three  
7 of our colleagues and the secretary have gone down,  
8 and they had to be there before the elevators closed.

9 Is there any further evidence to be given,  
10 or representations to be made?

11 MR. WARDROPE: Mr. Chairman, in closing, on  
12 behalf of the Province of Ontario, I just wanted to  
13 make a reference to what seemed to me to be one of  
14 the highlights of the day, and that was the knowledge  
15 gained and the evidence we heard. We in this area  
16 and Manitoba are a gregarious people, and I was very  
17 proud to see the tremendous esprit de corps between  
18 Manitoba and Ontario that was very heartening to me,  
19 and I want the members from Manitoba who are here now  
20 to take that back with them. We were very thrilled  
21 yesterday with Premier Roblin, and we certainly do  
22 simulate that here for himself and for the people of  
23 his province, so that we are united, going down the  
24 road arm in arm and united to obtain some of the things  
25 we want. In closing, I want to convey the remarks  
26 of Premier Frost again to you for your kindness and  
27 courtesy and to the Commission members for their kindness,  
28 and your diligence and the way you have listened and  
29 digested our briefs and our suggestions; also to the  
30 solicitors. It was very revealing to me to see how they







1      went into these briefs and sifted this evidence.

2              Mr. Chairman, my sincere thanks on behalf  
3      of the Government of Ontario for you appearing at the  
4      Lakehead.

5              THE CHAIRMAN: We will now adjourn to Ottawa  
6      on Monday morning at 10 o'clock.

7      ---Adjournment.

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SCHEDULE "A"

SUMMARY OF TRAFFIC HANDLED AT CANADIAN LAKEHEAD PORTS - 1958

	COASTAL				INTERNATIONAL							
	LOAD		UNLOAD		LOAD		UNLOAD			TOTAL		
	FW	PA	FW	PA	FW	PA	FW	PA	Load	Unload	Total	
1 Cargo	508	7	133,549	141,084					515	274,633	275,148	
Grain	1,776,602	3,459,496	7,535	5,865	83,677	108,044			5,427,819	13,400	5,441,219	
Flaxseed		1,171							1,171	--	1,171	
Grain Screenings	193,336	462,263			8,902	71,964			736,465	--	736,465	
Other Grain	491,900	905,491			177,228	139,610			1,714,229	--	1,714,229	
Flour, grain	13,509	47,081			19,990	71,785			151,915	--	151,915	
Malt	93,516	135,449			3,033				231,998	--	231,998	
Other Mill Products	7,400	28,671			7,755	31,130			74,967	--	74,967	
Other Fresh Vegetables		3,241							3,241	--	3,241	
Other Agricultural Products	13,358	7,674	66	1,380					21,032	--	21,032	
anthracite	2,068	35,795							37,863	--	37,863	
bituminous	122,931	15,713							138,644	--	138,644	
Ore			4	2						--	6	
Limestone				3						--	3	
Sand, Gravel, & Stone												
Other Clay Mine Products												
Pulpwood and Chips												
Beverages	2		125									
Sugar, raw and refined			1,434	268								
Canned Food Products	40	2	483	5,244								
Other Manufactured Food	348											
Rubber Products				44								
Newsprint paper					100,636	6,495	1		107,131	--	107,132	
Woodpulp and paper					923				923	--	923	
Scrap Iron and Steel					18,332				18,332	--	18,332	
Iron and Steel Bards, etc		521	25,364	1,263					521	--	521	
Castings and Machinery			743	60						--	803	
Other Iron and Steel	9									--	9	
Cement			19,707	7,000						--	26,707	
Gasoline			99,520							--	106,265	
Petroleum Oils and Products	11,075		159,267	70								
Pitch, Tar and Creosote	200	1,335	2,700	13,300					11,075	--	164,671	
Chemicals and Chemical Products			666	7,905					1,535	--	16,000	
Automobiles, Trucks and P	10	12	55	2,185						--	8,572	
Containers, Wood and Metal	1,313	937								--	2,240	
All other Freight	568	165	5,939	1						--	2,250	
									733	--	5,940	
TOTAL	2,728,243	5,387,441	457,032	187,061	420,487	1,551,072	279,075	200,766	10,087,243	1,123,934	11,211,177	

Source: Shipping Report, Parts II and III, D.B.S., 1958.





## SCHEDULE "B"

## COMPARISON OF LEADING CANADIAN PORTS

	Coast	L O A D E D		Coast	U N L O A D E D		Total	1958 Grand Total	Percent	Rank
		Load	Total		Unload	Total				
		<u>INTERNATIONAL</u>			<u>INTERNATIONAL</u>					
Bell Island, Newfoundland	431,423	1,798,622	2,230,045	21,993	55	22,054	2,252,099	1.52%	19	
Cornerbrook, Newfoundland	24,812	301,830	326,642	592,138	117,508	709,646	1,036,288	.70%	29	
All Other, Newfoundland	1,035,079	499,812	1,534,891	1,075,023	578,005	1,653,029	3,187,920	2.14%	--	
Total Newfoundland Ports	1,491,314	2,600,264	4,091,578	1,689,157	6,955,572	2,364,729	6,476,307	4.36%		
All Prince Edward Island Ports	70,784	65,131	135,915	119,027	96,901	215,928	361,843	.24%	--	
Halifax, Nova Scotia	1,401,710	1,912,007	3,313,717	109,539	2,803,177	2,972,716	6,286,433	4.23%	5	
Sydney, Nova Scotia	1,972,217	99,692	2,071,909	989,277	134,822	1,124,099	3,196,008	2.15%	12	
Little Narrows, Nova Scotia	171,002	987,359	1,158,361	--	1	1	1,158,362	.78%	26	
All Other Nova Scotia	542,917	1,094,400	1,637,317	270,429	28,019	298,448	1,935,765	1.30%	--	
Total Nova Scotia Ports	4,088,446	4,093,458	8,181,904	1,369,245	3,026,019	4,395,264	12,577,168	8.46%		
Saint John, New Brunswick	71,240	1,080,671	1,151,911	345,699	688,583	1,044,282	2,196,193	1.48%	20	
All Other, New Brunswick	104,339	435,843	541,182	457,108	49,642	506,750	1,047,932	.70%	--	
Total New Brunswick Ports	175,579	1,517,514	1,693,093	802,807	748,225	1,551,032	3,244,125	2.18%		
Montreal, Quebec	3,622,278	4,232,094	7,854,372	5,459,483	4,435,853	9,895,336	17,749,708	11.94%	1	
Seven Islands, Quebec	1,829,258	7,155,210	8,984,468	121,862	71,583	193,445	9,177,913	6.18%	4	
Quebec, Quebec	197,147	879,596	1,076,743	2,457,253	462,865	2,920,118	3,996,061	2.69%	9	
Port Alfred, Quebec	44,159	424,201	468,360	344,313	2,203,618	2,547,931	3,016,291	2.03%	14	
Contrecoeur, Quebec	177,744	1,666,677	1,844,421	1,596,241	18,165	1,614,406	2,958,527	1.99%	15	
Trois Rivières, Quebec	27,544	740,287	767,931	1,663,208	271,820	1,935,028	2,702,959	1.82%	16	
Sorel, Quebec	98,136	848,433	946,569	1,130,526	221,517	1,352,043	2,298,512	1.55%	18	
All Other, Quebec	2,812,829	453,545	3,266,374	974,932	259,581	1,234,513	4,500,887	3.03%	--	
Total Quebec Ports	8,809,195	15,900,043	24,709,238	13,747,818	7,945,002	21,692,820	46,402,658	31.23%		
Port Arthur, Ontario	5,387,441	1,551,072	6,938,513	187,061	200,766	387,827	7,326,340	4.93%	3	
Port William, Ontario.	2,728,243	420,487	3,148,730	457,032	279,075	736,107	3,884,837	2.61%	7	
Lakehead	8,115,684	1,971,559	10,087,243	644,093	479,841	1,123,934	11,211,177	7.34%	3	
Hamilton, Ontario.	277,794	11,924	289,718	582,566	5,321,772	5,904,358	6,194,076	4.17%	7	
Toronto, Ontario	622,467	123,236	745,703	1,633,797	2,026,925	2,660,925	4,406,425	2.97%	7	
Port Colborne, Ontario	1,599,370	361,449	1,960,819	1,959,187	440,082	2,399,269	2,360,088	2.95%	8	
Sault Ste. Marie, Ontario	142,243	175,243	317,486	431,568	2,712,345	3,149,419	3,491,419	2.35%	10	
Prescott, Ontario	1,447,302	2,824	1,450,126	1,702,099	288,277	1,990,376	2,440,502	2.31%	11	
Sarnia, Ontario	1,700,960	76,988	1,777,948	551,760	712,205	1,263,875	3,041,733	2.05%	13	
Kingston, Ontario	795,431	974	796,405	951,567	129,356	1,080,923	1,877,328	1.26%	21	
Midland, Ontario	8,294	5,627	13,921	1,204,822	152,567	1,357,389	1,371,310	.92%	23	
Michipicoten, Ontario	10,677	1,023,995	1,034,673	75,628	100,529	176,157	1,210,830	.81%	24	
Clarkson, Ontario.	490,315	7,016	497,331	109,175	474,620	583,795	1,081,125	.73%	27	
Windsor, Ontario	98,801	279,347	378,148	196,020	480,122	676,142	1,054,290	.71%	28	
All Other, Ontario	1,376,955	1,551,183	2,928,138	4,090,808	3,480,228	7,571,036	10,499,174	7.07%	--	
Total Ontario Ports	16,686,293	5,611,276	22,297,569	14,163,040	16,798,869	30,961,909	53,259,478	35.84%		
All Manitoba Ports	6,455	587,870	594,325	21,708	31,674	53,382	647,707	.44%	--	
Vancouver, British Columbia	2,718,618	5,617,217	8,335,835	2,515,641	760,452	3,276,103	11,611,938	7.81%	2	
New Westminster, British Columbia	740,427	917,837	1,658,264	569,645	143,893	713,539	2,371,803	1.60%	17	
Victoria, British Columbia	422,071	633,579	1,055,650	610,084	84,625	694,709	1,750,359	1.18%	22	
Powell River, British Columbia	137,041	269,198	406,239	725,127	251,813	976,940	1,163,179	.80%	25	
All Other, British Columbia	3,022,836	2,484,595	5,507,431	2,416,037	741,778	3,157,815	8,665,246	5.63%	--	
Total British Columbia Ports	7,040,993	9,922,426	16,963,419	6,836,535	1,782,571	8,619,106	25,582,525	17.22%		
Total North West Territory Ports	482	900		29,567	8,861		39,810	.03%	--	
Total Canadian Ports	38,369,541	40,298,882	78,668,423	38,778,904	31,133,694	69,912,598	148,581,021	100.00%		

Source: Shipping Report, Parts II and III, D.B.S., 1958.



*Hon. E. P. McTavish*

# ROYAL COMMISSION

ON

# TRANSPORTATION

HEARINGS

HELD AT

OTTAWA

VOLUME No.:

**71**

DATE:

**30 MAY 1960**

OFFICIAL REPORTERS

ANDERSON, STONEHOUSE & CO., LTD.

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I N D E X

Page No.

EDWARDS, Ford K.

Direct Examination  
By Mr. Sinclair

12581

Cross-examination  
By Mr. Mauro

12584

E X H I B I T S

No.

Description

140

Province of Manitoba  
Expenditures on Road  
Construction and  
Maintenance.

12584







ROYAL COMMISSION ON TRANSPORTATION

Proceedings of hearings held in  
the Court Room, Board of Transport  
Commissioners Offices, Ottawa,  
Ontario, on the 30th day of May,  
1960

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## E R R A T A

<u>Page</u>	<u>Line</u>	<u>Reads</u>	<u>Should Read</u>
<u>VOLUME 29</u>			
4234	22	minimizing	maximizing
<u>VOLUME 71</u>			
12585	22	Coal Economics	Cost Economics
12599	14	said here	said there
12630	19	taking now	talking now
12638	27	difficulty	difficult
12640	18	fully developed	fully distributed
12648	12	Well it was prior to	Well it was prior too
12700	19	have never	have ever
12703	8	I would be	I would do
12709	11	maintenance of switches	maintenance of shops and enginehouses
12709	19	maintenance of water	maintenance of water and fuel stations
<u>VOLUME 72</u>			
12778	9	grained	grain
12807	4	33 mills	23 mills
12840	27	excluding	including







Ottawa, Ontario,  
Monday,  
May 30, 1960

--- On commencing at 10.00 a.m.

THE CHAIRMAN: Order, please. Mr. Sinclair,  
you have Dr. Edwards here.

MR. SINCLAIR: Yes. Dr. Edwards, please.

F.K. EDWARDS, called.

THE CHAIRMAN: Mr. Mauro, I think --

MR. SINCLAIR: Before Mr. Mauro starts, there  
is just one point I would like to cover with Mr. Edwards  
with your permission, sir.

THE CHAIRMAN: Yes.

MR. SINCLAIR: Mr. Edwards, when Mr. Stenason  
was recalled here about three weeks ago he presented  
to the Commission a document which is known as  
Exhibit 132 which set out in a number of cases certain  
revisions that had been made to the cost study that  
had been introduced in evidence in December last and  
when you followed Mr. Stenason and Mr. Bandeen on the  
witness stand. Have you seen this document before?

THE WITNESS: I have.

MR. SINCLAIR: The revisions that were made  
and as set out in the document, Exhibit 132, Mr.  
Edwards, were they done in consultation with you?

THE WITNESS: They were.

MR. SINCLAIR: Have you any comments to make  
on them?

THE WITNESS: The reasons for these adjustments  
fell into two or three categories. One was to correct





1  
2 certain errors that had been found in the studies and  
3 had been pointed out in some cases by other parties.  
4 The second basic reason was to provide certain re-  
5 finements, particularly in the treatment of freight  
6 train car costs. When the I.C.C. rail form A procedures  
7 had been initially used, I felt they were some degree  
8 of refinement over them could be made. That largely  
9 dealt with freight train car expense treatments.  
10 The third larger item dealt with constant costs and the  
11 the application of the constant costs through regression  
12 analysis for terminal divisions was omitted, it was  
13 overlooked in the assembly of the total costs, and  
14 the inclusion of those items largely accounted for the  
15 final item on these sheets.

16 MR. SINCLAIR: Thank you.

17 MR. MAURO: Before commencing cross-examination,  
18 Mr. Chairman, in reply to a question to my learned  
19 friend Mr. Sinclair in Winnipeg on February 11 to the  
20 Honourable Gurney Evans, this was said:  
21  
22  
23  
24  
25  
26  
27  
28  
29  
30





1  
2 " Q. Mr. Evans, you made some  
3 response at page 17, according to my  
4 notes, about expenditures in Manitoba  
5 on highway construction. According to  
6 my note, I think you said something in the  
7 nature of \$33 million of capital expenditures,  
8 and that is at page 17, and you also made ref-  
9 erence on page 10 to road construction and  
10 the joint federal-provincial Roads to  
11 Resources programme?

11 A. Yes.

12 Q. Were you and the advisers in the  
13 government of Manitoba provided with the  
14 expenditures for capital and maintenance on  
15 roads in Manitoba, federal, provincial or  
16 municipal, say, for three or four years back?

17 A. Certainly we can provide you with  
18 provincial -- I am sure we can."

19 I have now the information from the depart-  
20 ment in the province of Manitoba setting out capital  
21 construction costs as from 1955 to 1959-60.

22 THE CHAIRMAN: You wish to file that as an  
23 exhibit?

24 MR. MAURO: I thought that would be the  
25 best way.  
26  
27  
28  
29  
30







1  
2 MR. CUMMING: Exhibit 140, I think,  
3 Mr. Chairman. We put in 139 at the Lakehead.

4 --- EXHIBIT NO. 140: Province of Manitoba Ex-  
5 penditures on Road Con-  
6 struction and Maintenance.

7 CROSS-EXAMINATION BY MR. MAURO:

8 Q. Mr. Edwards, what percentage of the total  
9 revenue ton miles handled by the C.P.R. is represented  
10 by movement of grain at statutory rates?

11 A. 42.2 per cent.

12 Q. 42.2 per cent. What is the source that you  
13 used in arriving at your figure of 42.2 per cent?

14 A. This is in these factors in the prairie and  
15 Pacific regions.

16 Q. That was the factor in the prairie and Pacific  
17 regions? What is the percentage which statutory rates are  
18 of the total traffic handled by the Canadian Pacific  
19 Railway?

20 A. That is 26.2 per cent, sir.

21 Q. Now, did you use the waybill analysis for  
22 arriving at this figure, or what was the source of your  
23 information?

24 A. I will inquire. I am sure, basically, it  
25 goes back to the waybill records. It is the regular  
26 compilation of system net ton miles.

27 Q. So that you took the percentage of grain  
28 handling, net ton miles of grain to the total net ton  
29 miles handled by the entire system, including all  
30 other traffic handled?

A. Yes, that would be the total C.P.R. system.





1  
2 Q. Could you tell us what percentage of total  
3 car loadings grain represents?

4 A. I am afraid we will have to obtain that for  
5 you, Mr. Mauro.

6 Q. Page 2647 of the transcript, Mr. Edwards,  
7 which is volume 19?

8 A. Yes, sir.

9 Q. Towards the end of the page:

10 " Q. How would you determine what you  
11 referred to as a fair proportion?

12 A. What constitutes a 'fair proportion'  
13 of the constant cost involves economic and  
14 traffic consideration. The basic consideration  
15 from an economic standpoint is that a large  
16 segment of traffic, such as Western grain  
17 moving to export positions, should not be  
18 a burden on other traffic. To avoid being a  
19 burden on other traffic or on the railways,  
20 the revenues received from this large segment  
21 of traffic cannot be appreciably lower than  
22 total cost."

23 As a former director of the Department of  
24 Coal Economics of the National Coal Association,  
25 Mr. Edwards, could you tell us whether coal returns  
26 fully distributed costs in the United States?

27 A. Coal moves at something less than the so-  
28 called fully distributed ton and ton-mile apportionment.  
29 However, the issue is the same here, the rates should  
30 not be lower than what the traffic can properly bear,  
the value of the commodity, competitive considerations  
and the effect in particular of the rates upon the  
movement of the traffic. Those are all the economic and







1  
2 traffic considerations that are behind my statement  
3 here, and coal rates, I might say, the greatest  
4 dollar contribution to burden of all traffic in the  
5 United States.

6 Q. That is exactly the point I am going to come  
7 to, Mr. Edwards, and so that we bring the Commission  
8 along with that and other things, you said something  
9 less than fully distributed costs. I think that we  
10 should try and put on the record the exact contribution  
11 of coal revenue-wise and percentage-wise, and I will  
12 now refer to the burden study, a document entitled  
13 "Distribution of Rail Revenue Contribution by Commodity  
14 Groups, 1957", and I am referring to page 38. Bituminous

15 VOLUME 71

16 12586 13 Delete sentence commencing "Bituminous coal"  
17 Substitute: "As you know, 100 percent  
18 represents the fully distributed costs and  
19 bituminous coal takes a percentage of that  
20 in the statistical determination of  
21 contribution to burden."

22 MR. MAURO: The Interstate Commerce.

23 MR. SINCLAIR: Before the witness answers,  
24 I take it, through inadvertence, that my friend in putting  
25 the question to him didn't repeat the answer of the  
26 witness when he said fully distributed on a ton and ton-  
27 mile apportionment of cost.

28 THE CHAIRMAN: I suppose the witness is  
29 familiar with this?

30 MR. MAURO: Well, so familiar that I think  
one can properly say that Mr. Edwards fathered the  
document.

THE CHAIRMAN: Just so we will have it on the  
record.





1  
2 MR. MAURO: Q. At page 38 of that document,  
3 butiminous coal, U.S. to U.S., 79 per cent.

4 A. Pardon me, I have several documents here  
5 and I didn't --

6 Q. Page 38, table 7. The document is 2 of 1959?

7 A. Yes, I have it.

8 Q. We might save some time if you could look  
9 over my shoulder.

10 A. 2 --

11 Q. 2 of 1959?

12 A. Yes.

13 Q. At page 38?

14 A. Yes.

15 Q. 305, bituminous coal?

16 A. Yes.

17 Q. U.S. to U.S. 79 per cent; official to  
18 official, 81 per cent; south to south, 77 per cent;  
19 west to west, 68 per cent; official to south, 86 per  
20 cent; south to official, 72 per cent; official to  
21 west, 76 per cent; south to west, 73 per cent. So  
22 that while in none of the regions does coal return  
23 fully distributed costs, it is still the largest  
24 contributor to overhead in the United States?

25 A. Yes. That arises from lower than average  
26 contribution per unit of traffic handled, per revenue  
27 ton mile, let's say, multiplied by the volume of  
28 traffic attracted by that rate.

29 Q. Yes. So when you are discussing contri-  
30 bution to revenue on a volume traffic such as coal,  
fully distributed cost is completely mythical in trying  
to determine whether or not it will make a substantial  
contribution to revenue, because in the United States,





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Edwards, cr-ex.  
(Maruo)

12588

1  
2 while in no district does coal become fully, distri-  
3 buted costs, yet in that same document which I  
4 referred you to, the front page of it, which is  
5 bituminous coal, it makes a contribution of \$200-odd  
6 million, making it the largest single contributor.  
7 That is correct, Mr. Edwards, isn't it; it is  
8 the largest contributor to burden in the United States?  
9  
10  
11 --  
12  
13  
14  
15 --  
16  
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18  
19 --  
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21  
22 --  
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30







1  
2 A. We presume, and I know it is the inten-  
3 tion of those having charge of the making of the rate  
4 that it yields as maximum a contribution which it can  
5 economically do considering the effect of the rate on  
6 the movement of the traffic and the fact that it has  
7 a value in origin of some \$5 a ton and it is a very  
8 low grade commodity.

9 Q. I can assure you, Dr. Edwards, that you  
10 and I in the next day or so are going to discuss very  
11 fully this matter of what a rate should reflect, and  
12 the only point I am trying to make now is that there is  
13 nothing religiously significant about fully distributed  
14 costs, and when you refer to grain and say that it should  
15 not have a rate that returns appreciably less than full  
16 costs, you want to qualify that in the light of your  
17 experiences in the United States that coal, while it  
18 does not in any district return fully distributed  
19 costs, it makes a very real contribution to burden?

20 A. No, sir, I would not qualify that answer.  
21 You look in this book and read of the experience of  
22 grain that moves well above, far above, fully distri-  
23 buted costs, and all the products of agriculture as a  
24 whole move very close to the fully distributed costs,  
25 and the value is from eight to ten times per ton on  
26 grain than it is on coal and it is not subject to the  
27 competitive transportation conditions that coal is in  
28 its markets against gas and oil.

29 THE CHAIRMAN: Mr. Mann.

30 COMMISSIONER MANN: Is this the latest study





1 of the ICC? You gave 1957 study. Is their 1958  
2 out yet?

3 MR. MAURO: This is dated August, 1959.

4 COMMISSIONER MANN: That is probably right.  
5 The second question I had, are there any other major  
6 commodities that have a lower contribution to overhead  
7 than ---  
8

9 MR. MAURO: We will check it, Mr. Mann, and  
10 let you know.

11 COMMISSIONER MANN: Thank you very much.

12 MR. MAURO: Q. Would you turn to page 2659  
13 in volume 19. I am referring to the last answer on the  
14 page:

15 "It will be noted that the per cent empty  
16 to loaded car miles for the study traffic is  
17 57.3 per cent for Canadian National and 57.7  
18 per cent for Canadian Pacific as developed  
19 from separate test studies. The higher  
20 percentage for box cars in grain service as  
21 compared to the Western Canada and System  
22 percentages for all freight cars and com-  
23 modities is because a substantial number of  
24 grain cars move in a cycle between grain-  
25 loading points and the Lakehead, and experience  
26 a very low rate of reloading because of the  
27 lack of westbound traffic originating at the  
28 Lakehead."

29 Now, I wonder if you will agree, Dr. Edwards,  
30 that the movement of coal in the United States has a very







1 large empty return movement?

2 A. It does.

3 Q. To that extent we have first volume --  
4 coal moving in very large volume and grain moving empty  
5 in large volume in Canada, and now in the case of empty  
6 return movement your experience is valuable to this commissio  
7 again because, as you refer to grain having a large  
8 empty return movement, so similarly coal had a large empty  
9 return movement.

10 I refer, just to get the statistics on the  
11 record, Dr. E dwards, to page 12 of a document published  
12 by the Interstate Commerce Commission entitled "Rail Car-  
13 load Cost Scales by Territories for the Year 1958,"  
14 and at page 12 of that document under a heading "Ratio  
15 of loaded to empty car miles by type of equipment,  
16 year 1958 -- hopper to open Pocahontas region, 0.91."  
17 So that there is less than one loaded car mile for  
18 every empty car mile in the Pocohontas region. Would  
19 that reflect your experience?

20 A. That is right.

21 Q. Thank you, doctor. You referred to the  
22 United States Supreme Court Decision in the case of  
23 Northern Pacific versus North Dakota at 236 United  
24 States Reports, 585-596, and at page 2649 of the  
25 transcript you quote from the decision in question.

26 "Q.Are you reading from a decision of the Court?

27 "A.Yes."

28 You go on with the quotation:  
29

30 "The outlays that exclusively pertain to  
a given class of traffic must be assigned to





1 that class and the other expenses must be  
2 fairly apportioned. It may be difficult  
3 to make such an apportionment, but when  
4 conclusions are based on cost the entire cost  
5 must be taken into account."

6  
7 Dr. Edwards, as I read that Decision of the  
8 Supreme Court, I interpreted that what the Supreme  
9 Court was saying there, that in setting rates on a  
10 class of traffic and the class being products of  
11 agriculture, products of mines rather than specific  
12 commodity movements --would that be a fair inter-  
13 pretation where they refer to the apportionment of  
14 outlays that exclusively pertain to a given class  
15 of traffic? As you and I know, in the United States  
16 and in Canada, but we will particularly confine our-  
17 selves to the United States, those classes are listed  
18 at the back of the studies -- products of mine,  
19 products of agriculture and manufactured and miscel-  
20 laneous, and this is the type of grouping that the  
21 Supreme Court had in mind in determining costs of  
22 products of agriculture and attempting to apportion  
23 the costs of carrying products of agriculture as  
24 opposed to grain exclusively?

25 A. Well, I do not think the Court was  
26 narrowing itself specifically to grain and coal, if  
27 that is your point.

28 Q. Well, if someone said to you, Dr.  
29 Edwards, "class of traffic", what would you think he  
30 was referring to? I suggest that you would take as





1 a class of traffic what I have previously stated --  
2 products of agriculture, products of mine, manufactured  
3 and miscellaneous?

4 A. Well, the Court said -- I gave you a  
5 quotation in reading at pages 19-20 -- no, I guess it  
6 is page 598-599:

7 "The Legislature undoubtedly has a wide  
8 range of discretion in the exercise of the  
9 power to prescribe reasonable charges, and  
10 it is not bound to fix uniform rates on  
11 all commodities or to secure the same per-  
12 centage of profit on every sort of business.

13 There are many factors to be considered."

14 Now, that is following -- you haven't stated -- I do  
15 not think the Court was narrowing itself down to ---

16 Q. Its single commodity.

17 A. Coal and grain, if that is what you are  
18 following.

19 Q. But they are referring to class of  
20 traffic as their language sets out. Now, this decision  
21 was set down in 1915, as I understand it?

22 A. Yes, sir.

23 Q. This statement still represents the  
24 thinking of the Interstate Commerce Commission in the  
25 United States?

26 MR. SINCLAIR: Interstate or the Supreme  
27 Court?

28 MR. MAURO: Q. As I understand the evidence  
29 that you gave, Dr. Edwards, the decision of the Supreme  
30







1 Court on this matter, of course, is binding on the  
2 Interstate Commerce Commission, but this was a  
3 direction in effect?  
4

5 A. Is it your question: does the  
6 Interstate Commerce Commission presently subscribe to ---

7 Q. The reasoning?

8 A. The reasoning ---

9 Q. Of the Supreme Court?

10 A. In here, and the reasoning as I have  
11 endeavoured to give it, as I understand it? I would  
12 say yes.

13 THE CHAIRMAN: The Supreme Court would make  
14 up the mind of the Interstate Commerce Commission, I  
15 suppose?

16 THE WITNESS: Well, yes, in the long run they  
17 would, but this is a very fundamental and almost  
18 elementary statement of how you make rates, and I  
19 cannot conceive of any informed regulatory body long  
20 departing from the elements of rate-making that are  
21 set out here.

22 MR. MAURO: Q. All right. As you told  
23 my learned friend at 2649, this in effect synthesizes  
24 your position:

25 "Q. You have a small quote there which  
26 would synthesize your position, I  
27 think?

28 "A. Yes."

29 A. Yes, sir.

30 Q. Then I want to refer you to a document





1  
2 entitled "Explanation of Rail Cost Finding Procedures  
3 and Principles Relating to the Use of Costs" prepared  
4 by the Cost-Finding Section of the Interstate Commerce  
5 Commission. My document, Dr. Edwards, is Statement  
6 No. 4-54, November, 1954, and at page 21 of that  
7 document reference is made to the Decision of the  
8 Supreme Court of the United States in Northern Pacific  
9 versus North Dakota, the same case that you and I have  
10 been talking about?

11 A. Yes, sir.

12 Q. They are discussing disposition of constant  
13 costs, and I shall read from page 19:

14 "Rule of Northern Pacific Railway Company  
15 vs. North Dakota:

16 "As the disposition of the constant expenses  
17 in a cost study must give consideration to the  
18 pronouncements of the Courts, reference is  
19 made to the decision of the Supreme Court  
20 in Northern Pacific Railway Company vs.  
21 North Dakota. The Court found that rates  
22 fixed by the State of North Dakota on lignite  
23 coal were confiscatory in that they did not  
24 cover the full cost of the service, including  
25 an apportionment of the non-variable ex-  
26 penses. The Court said:"

27 and they quote the Court at page 20:

28 "While this statement indicates that all costs  
29 must be taken into consideration in fixing rates,  
30 the Court, nevertheless, appreciated the problem







1 of dealing with the constant expenses when it  
2 laid down the following rule:

3 'The outlays that exclusively pertain  
4 to a given class of traffic must be  
5 assigned to that class, and the other  
6 expenses must be fairly apportioned.  
7 It may be difficult to make such an  
8 apportionment, but when conclusions are  
9 based on cost the entire cost must be  
10 taken into account.'

11 "The view has sometimes been expressed ---"  
12 that was the end of the quote, the same quote you have  
13 given, Dr. Edwards:

14 "The view has sometimes been expressed that  
15 under this rule a rate, to be above a  
16 confiscatory level, must cover the assignable  
17 (out-of-pocket) costs plus some arbitrary  
18 apportionment of the constant costs. But, as  
19 economists have hastened to point out, the  
20 effect would be to give to the treatment of  
21 the constant costs a rigidity in law which they  
22 do not have in economics and cannot have in  
23 the practical aspects of rate making. The  
24 value-of-the-service (demand) factor is not  
25 identical for all freight or all markets.  
26 Prices are never based on an arbitrary appor-  
27 tionment of the constant or fixed expenses.  
28 Indirect expenses never burden all traffic  
29 proportionately, ton for ton, irrespective of  
30





1 the ability of the traffic to pay. Such an  
2 approach, indeed, would be contrary to the  
3 principle that low unit contributions to the  
4 constant costs may yield increased aggregate  
5 contributions as a result of added volume."  
6

7 One further quote at page 21:

8 "It appears from the preceding citation  
9 that the Court in using the term 'fairly  
10 apportioned' did not mean that the rates should  
11 be constructed by taking the out-of-pocket  
12 costs and adding thereto some amount which is  
13 based on a statistical apportionment of the  
14 constant or fixed costs. The Court specifical-  
15 ly stated that the value of service (i.e. demand)  
16 should be considered. As pointed out earlier  
17 in this chapter, value of service (demand) is,  
18 indeed, the key to a 'fair apportionment' of  
19 the constant costs.

20 "In the first citation given above the Court  
21 stated that when conclusions are based on cost  
22 the entire cost must be taken into account.  
23 This is interpreted as meaning that the rate-  
24 maker can ignore neither the existence of the  
25 constant costs (or burden) nor the necessity of the  
26 traffic in question making a proper contribution  
27 to such costs. However, the measure of such  
28 contribution rests on value-of-service  
29 considerations and not on cost considerations.  
30 Any other concept could not be reconciled with





1 the fundamental nature of transportation costs."

2 I would presume, Dr. Edwards, that what I  
3 have read to you is also in fact your position on the  
4 interpretation for rate making purposes of the Supreme  
5 Court Decision in North Dakota?  
6

7 A. Yes, sir. I wrote this, and I certainly  
8 subscribe to it as well today as I did when I wrote it.  
9  
10  
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30







1 Q. So that when this Commission is taking  
2 into consideration the evidence you give today you  
3 mean they should rely on the Supreme Court's decision  
4 in the case of Northern Pacific against North Dakota,  
5 and you want them also to take into consideration  
6 what I have just put to you?  
7

8 A. No; and the quotation at the end of  
9 transcript 2647 which you cited, starting: "What  
10 constitutes a 'fair proportion' of the constant cost  
11 involves economic and traffic consideration. The  
12 basic consideration from an economic standpoint is  
13 that a large segment of traffic . . ." and so on.  
14 Now, I find no difference from what I have said here  
15 from what I have said here.

16 Q. That may be a matter of argument, but  
17 you and I do agree that you want this Commission to  
18 take into consideration the decision of the Supreme  
19 Court which synthesizes your position, and you also  
20 want them to take into consideration what I have just  
21 read?

22 A. Yes, indeed.

23 Q. Now, I would like to discuss with you  
24 your concept of fully distributed cost and total cost  
25 in the rate making and cost studies.

26 As I understand it -- and I would sincerely  
27 appreciate your discussion on this, Dr. Edwards --  
28 the purpose of costing the first one is to determine  
29 the variable and out-of-pocket cost associated with  
30 the traffic under study, and then, after these costs





1 have been determined, the next step is to apportion  
2 to this traffic a share of the constant cost or your  
3 costs which do not fluctuate with volume, and then  
4 these constant costs will reflect the total burden  
5 that all the freight and passenger trains must bear  
6 to meet railroad system expenses.  
7

8 Is that an amateur's statement of the some-  
9 what complex subject of purpose costing.

10 A. Well, you did pretty well, but not as  
11 well as I could do.

12 What I mean, Mr. Mauro, to make myself clear,  
13 is that you state you first fix the variable cost.  
14 That you certainly do. Those are costs that you  
15 can ascertain and pin down to the traffic involved.

16 Now, as to what you do next -- what the  
17 cost man may do next -- is, well, not of great conse-  
18 quence. I have written extensively on this subject  
19 as to how the mind of the rate maker works. He comes  
20 to the out-of-pocket cost and then he reflects the  
21 burden either on a percentage basis as was done here,  
22 or on a ton-and-ton basis and he uses that as a point  
23 of departure. Then, in effect, he will determine  
24 what would have been the effect if he increased the  
25 rate above and above, as in many cases the traffic is  
26 200 per cent of out-of-pocket, and the variable portion  
27 of the traffic moving is that much above the fully  
28 distributed costs. He will take the point of departure  
29 and make adjustments down and will satisfy himself  
30 what will be the effect of these adjustments on the







1 volume of traffic.

2 I maximize my contribution on some high  
3 grade machinery. If the fully distributed costs  
4 are 125 per cent above, or even 150 per cent above,  
5 he can either establish the out-of-pocket expenses  
6 and add 5 per cent or 10 per cent, or he will go to the  
7 structure of his rate as a whole and from that get a  
8 gleaning of about where the rates on this commodity,  
9 looking at the structure as a whole, and the rates on  
10 other commodities and what they are contributing, and  
11 he uses this as a starting point by keeping his eye  
12 on, certainly, the out-of-pocket costs -- the floor --  
13 but he can raise the scale up and down. His fully  
14 distributed cost has been costed and he knows he has  
15 his point of departure. There is a limited amount of  
16 traffic that happens to move right at that level,  
17 although there are certain large groups of traffic  
18 that happen to move at just about the fully distributed  
19 cost in the United States.

21 Q. I thought we might just put on the  
22 record again the statement of the Interstate Commerce  
23 Commission on this point, which, I think, might be help-  
24 ful. It is at page 3 of 4-54:

25 "Constant costs represent the difference  
26 between the out-of-pocket, or variable costs,  
27 and the total costs. They consist of those  
28 costs which, within the limits of the range  
29 of output under study, are unaffected by  
30 increases or decreases in production. The





1 existence of constant costs stems from the  
2 fundamental fact that increases or decreases  
3 in output are not followed by proportionate  
4 increases or decreases in the expenses. The  
5 constant costs are, in effect, expenses which  
6 are incurred on behalf of the operation as  
7 a whole, and inasmuch as they can be avoided  
8 only by abandoning the entire operation, or,  
9 at least, very substantial portions of it. They  
10 cannot be traced to particular units of output  
11 or classes of customers. They continue to  
12 exist irrespective of whether or not any  
13 given unit is produced."  
14

15 So that, again, the important determination, in the  
16 first instance, in costing is the determination of  
17 the out-of-pocket expenses and then to what extent  
18 of the fully distributed costs you apportion this  
19 constant factor; and that can be apportioned in a  
20 number of ways. You have mentioned two -- either  
21 on a percentage basis or on a ton-and-ton mile basis?

22 A. Yes.

23 Q. And this is a matter for the rate maker,  
24 in fact?

25 A. Yes; it must be ever kept in mind the  
26 amount of it and how you are going to recover it.

27 Q. Now, Dr. Edwards, you have mentioned  
28 just a few minutes ago that you have discussed this  
29 matter in a number of cases and in a number of documents,  
30 and I thought it would be helpful if we could refer





1 to some of the statements and you might simply comment  
2 as to whether or not your position on the subject remains  
3 the same as previously stated?  
4

5 The first document that I will refer to is  
6 ICC docket 28300, Class Rate Investigation, 1939, and  
7 it is a statement of Ford K. Edwards in reply to the  
8 criticisms of exhibits introduced by him. This state-  
9 ment is dated February 1943. At page 12 of this  
10 statement, in your rebuttal section 8, you are referring  
11 to statements made by Mr. Kerr:

12 "Mr. Kerr states that assuming that the  
13 average unit of cost ton-mile is less than  
14 or at least not higher than in the Eastern  
15 District, such unit cost could not safely be  
16 used in measuring the reasonableness of rates  
17 in one section versus another for the reason  
18 that the compositions of traffic from which  
19 the aggregate revenues are produced are fully  
20 different . . . ."

21 Your answer was:

22 "The cost study serves to evaluate in  
23 cents per 100 pounds such differences in  
24 transportation conditions as weight of load,  
25 tare weight of car, per cent of empty return,  
26 length of haul and whether carload or less  
27 than carload to the degree that these affect  
28 costs. As to the transportation burden,  
29 which I interpret as meaning the constant or  
30 indirect expense, it provides no guide as to







1 its distribution over commodities of different  
2 ability to pay. The cost study, in my opinion,  
3 can only indicate the amount of such burden as  
4 stated in the aggregate and as produced prorata  
5 to an amount per revenue unit of traffic handled. "

6 You have no reason to change your opinion which you  
7 gave in 1943?

8  
9 A. No; except that I would state this, that  
10 a number of studies of burden contribution were made  
11 by the Commission, and there naturally evolved a  
12 certain pattern of reference. That does not mean that  
13 any percentage distribution or future distribution of  
14 constant costs created that margin of the relationship  
15 to fully distributed, but it gave a basis of showing  
16 the relative contribution which experience had shown  
17 various kinds of traffic could produce.

18 That doesn't change the principles I am  
19 talking about. That was the result of those principles.

20 Q. And you have no reason in 1960 to change  
21 the very important position you took in 1943 to the  
22 effect that burden, which . . . I interpret as  
23 meaning the constant or indirect expense . . . provides  
24 no guide as to the distribution over commodities of  
25 different ability to pay . . ." -- and I suggest that  
26 out of some personal research into the things you have  
27 said from 1943 to 1958 -- that there is nothing incon-  
28 sistent in that condition and the fact that full cost  
29 is an interesting statistic in the aggregate; that it  
30 provides no direction, no guide, as to what apportionment





1 a particular traffic should bear because in the appor-  
2 tionment of full cost one has to consider the  
3 ability of the traffic to pay.  
4

5 A. Having arrived at those statistics it  
6 provides a guide as to what the classes of traffic  
7 have been doing under the experience of rate making  
8 that was going on in that period up to that time.

9 Q. At page 58 of the same document you  
10 were referring to Exhibit 19. That exhibit has  
11 criticized the separation of the expenses, common to  
12 freight and passenger services, under rules prescribed  
13 by the Commission, and you answered that criticism to  
14 this effect:

15 "It is believe that the rules prescribed  
16 by the Commission for the common expenses are  
17 sufficiently accurate for the purpose used.  
18 In the cost study the constant expenses which  
19 are common to both freight and passenger traffic  
20 are in effect regrouped into a lump sum and  
21 treated as a burden which must be distributed  
22 on the basis of ability to pay. This leaves  
23 only those common expenses, principally main-  
24 tenance of way, which are directly affected by  
25 traffic volume, i.e., what we have termed the  
26 out-of-pocket portion. The use of some basis  
27 of separation other than that prescribed by  
28 the Commission would affect our freight out-  
29 of-pocket costs to a very small degree, even  
30 assuming a better basis can be found. It







1 would not affect the full distributed expense  
2 as any increase or decrease in the amount  
3 apportioned to the respective services would  
4 be offset in the computation of the passenger  
5 services."  
6

7 The important point there, for my purposes, is that  
8 they ". . . are in effect regrouped into a lump sum  
9 and treated as a burden which must be distributed on  
10 the basis of ability to pay . . .". That is your  
11 position on this matter of fully distributed?

12 A. That was my position in dealing with  
13 the American railroads. It is not the position of  
14 these roads here.

15 They look upon the passenger service as a  
16 by-product, or incremental service, the losses on which  
17 they hope to fully cost out, and it is not treated as  
18 a universal burden. The passenger services down there  
19 are more important to their operation than they are  
20 up here, although they are diminishing down there.

21 Q. I don't think you and I are going to  
22 have to discuss some of the lines in the United States  
23 where the passenger services, I suggest to you, are  
24 in the same position as the passenger services in  
25 Canada; and I respect your statement that the railroads  
26 in Canada have decided to treat it differently from the  
27 railroads in the United States. This has become very  
28 apparent, and I ask you now, if you would expand on  
29 this matter, whether that decision to treat it as  
30 incremental is a managerial decision or a costing





1  
2 decision in the viewpoint of yourself who has spent the  
3 better part of your lifetime in this work? You don't  
4 treat it that way in the United States . . . .

5 MR. SINCLAIR: Let him answer the question.

6 MR. MAURO: I am trying to shorten the time.

7 THE WITNESS: In so far as the treatment  
8 in the United States was concerned that was a decision  
9 away back, as head of the cost section, that I made  
10 myself. The passenger picture is rapidly changing;  
11 there are some sizeable American roads that are out  
12 of the passenger business entirely, and a great many  
13 of them would like to get out as rapidly as they could,  
14 except, possibly, for some commutation service which  
15 they feel they may make some money on, or they make  
16 arrangements whereby they may come out of it and not  
17 lose money on it. There has been this evolution in  
18 the matter; but the Canadian roads and the great net-  
19 work of lines that are spread over the west I wouldn't  
20 conceive of ever having been built to handle passenger  
21 traffic.

22  
23  
24  
25  
26 (Page 12610 follows)  
27  
28  
29  
30





1  
2 Q. The roads are ...?

3 A. The great network of lines throughout western  
4 Canada, I cannot conceive of that having been built as  
5 a primary purpose to handle passenger traffic. It is  
6 overwhelmingly devoted to the handling of freight  
7 traffic, and I am sure it was so conceived.

8 Q. Do you know the percentage of passenger to  
9 freight in the United States generally? What I am  
10 saying to you, so that there is no doubt in anybody's  
11 mind, is that American roads could decide that passenger  
12 is incremental, but as far as the costing in the United  
13 States is concerned, passenger service is costed as  
14 far as constant costs are concerned in the manner in  
15 which you stated in 28300?

16 A. No, I don't think; I would not say that. I  
17 think I am unique in having put that in. The costing  
18 that is done by the individual railroads themselves,  
19 I think, very rarely ever reaches out and picks up  
20 passenger deficits.

21 Q. I missed those last few words.

22 A. I think that it is rarely that the railroads  
23 of the United States, when making cost studies, reach  
24 out and pick up any allowance for passenger deficits.

25 Q. The Interstate Commerce Commission, for rate-  
26 making purposes and for costing purposes -- and we are  
27 more interested in rate-making purposes -- does it  
28 utilize and follow the line of thinking that you explain  
29 on page 58 of 28300, of that particular statement on  
30 28300; namely, that in the cost study the constant  
expenses common to both freight and passenger are, in  
effect, regrouped into a lump sum and treated as a







1  
2 burden which must be distributed on the basis of the  
3 ability to pay? Is that the practice of the Interstate  
4 Commerce Commission in dealing with rate-making matters?

5 A. You are referring to, is it their practice  
6 in dealing with rate-making matters to include an  
7 allowance for passenger deficits? Is that the question?

8 Q. No.

9 A. Well, I have lost it.

10 Q. I am probably partially to blame. But, as I  
11 understand your statement in this particular submission,  
12 and your subsequent statement that in Canada they treat  
13 passenger service differently, here you state that  
14 the constant expenses of freight and passenger  
15 traffic are, in effect, regrouped into a lump sum and  
16 treated as a burden which must be distributed on the  
17 basis of ability to pay. Is that still your opinion  
18 in 1960, that the passenger and freight constant  
19 expenses should be regrouped into a lump sum and treated  
20 as a burden which must be distributed on the basis of  
21 ability to pay? I understand it is probably your position,  
22 but it is not the position of the Canadian Pacific  
23 and the Canadian National in this cost study.

24 A. You asked me what was the position of the  
25 American railroads and the position of the Interstate  
26 Commerce Commission. Now, in answering that I face  
27 this problem: the cost studies under rail form A are  
28 published on an out-of-pocket cost basis, and they also  
29 show, as you know, a fully distributed cost that  
30 includes the passenger out-of-pocket loss, if any, and this  
other burden. It is automatically picked up. Now, the





1  
2 key to your question is, what effective use is made  
3 of that? Probably one of the most effective  
4 instrumentalities of the Interstate Commerce Commission  
5 in rate-making is through its suspension board. The  
6 cost section feeds thousands of costs annually to the  
7 suspension board to guide it in the host of matters  
8 coming before it daily, and I was instrumental in  
9 starting that, and I think it has carried on the same  
10 way, and they are fed only the out-of-pocket costs;  
11 they are not fed the total costs. The railroads  
12 themselves -- and I am familiar with a great many of  
13 them in their internal costing procedures for the use  
14 of their traffic departments -- practically never load  
15 on any burden for passenger deficits, or this loss.  
16 Now, you ask me, as rates are being made what weight  
17 is being given to this? You almost have to answer it  
18 yourself: to a large degree you go back to the  
19 practicalities of making rates. You know there is  
20 constant cost to be recovered, but there it rests. In  
21 the individual case you would have to ask the mind  
22 of the suspension board man who approves it or  
23 disapproves -- to suspend or not suspend -- or the  
24 traffic man.

25 Q. I don't want to interrupt you, but I thought  
26 we might save some time here, because I simply want  
27 your statement -- and I will try to make it as concise  
28 as possible -- whether, on May 30, 1960, Dr. Ford K.  
29 Edwards still believes that constant costs of freight  
30 and passenger services should be grouped together and  
distributed on the basis of ability to pay? Is that  
the opinion of yourself on May 30 1960? It was your







1  
2 opinion in February 1943, and I am just wondering  
3 whether it is still your opinion?

4 A. Well, I cannot make an answer yes or no to  
5 that, because I have introduced studies where the  
6 parties -- all they were interested in was a showing  
7 of the freight service costs.

8 Q. Then, I will refer you to page 3 of a paper  
9 presented to the Sixth Institute of Industrial  
10 Transportation and Traffic Management, The American  
11 University School of Social Sciences and Public Affairs,  
12 dated January 27, 1954. Your other was 1943, and you  
say there have been some changes?

13 A. Yes.

14 Q. I am now reading from page 3 of that document:

15 " The long-run rail freight out-of-pocket costs  
16 in the aggregate, as computed by the Cost Section,  
17 run to some two-thirds of the rail carriers' total  
18 revenue requirements, including the going rate  
19 of return and the passenger and LCL deficits  
20 when they occur. This leaves about one-third of the  
21 aggregate revenue requirements from freight to  
22 be apportioned as 'burden' on a value-of-service  
basis.

23 The term 'fully distributed cost' signifies  
24 that the constant or overhead costs of the carriers,  
25 including the passenger and LCL deficits when  
26 they occur, have been prorated equally among all  
27 tons and ton-miles of carload traffic without  
28 regard to value-of-service elements, and added  
29 to the out-of-pocket costs of transporting the  
30





1  
2 " traffic. The fully distributed cost, as the term  
3 is here applied to the freight service, represents,  
4 in effect, a rate-making 'dead center' in that  
5 it assumes that each shipment makes the statistical  
6 average ton and ton-mile contribution to burden  
7 realized from all carload freight traffic in the  
8 period studies. As will be later demonstrated,  
9 nothing moves at fully distributed costs."

And then, going over to page 4:

10 " Full cost figures vary, of course, depending  
11 on how they are constructed. If applied as a  
12 percentage of the direct costs, a common procedure  
13 in general cost work, the results will differ  
14 widely from those based on the net ton and ton-  
15 mile apportionments."

And again on page 5:

16 " Using the fully distributed costs as a yard-  
17 stick, it is found that low-grade, volume-moving  
18 traffic with a relatively elastic demand customarily  
19 moves at rates less than fully distributed costs,  
20 whereas the higher-valued traffic with a relatively  
21 inelastic demand moves at rates above this level.  
22 The percentage range in the level of rates by  
23 commodity classes generally ranged from the low  
24 fifties up to 200 per cent or over of the fully  
25 distributed costs."

And now, on page 6 of the same paper:

26 " The presence of value-of-service is  
27 attributable entirely to the presence of constant  
28 costs in rail or highway operations. The greater  
29  
30





1  
2 " the necessity of drawing on value-of-service  
3 or ability to pay as an apportionment factor."

4 And then further down the page under the  
5 heading, "Comment on fully distributed costs":

6 " What purpose does fully distributed cost  
7 serve? This question merits serious consideration  
8 as these costs are sometimes referred to by  
9 parties in speeches, testimony or briefs without  
10 adequate explanation or qualification; sometimes  
11 the impression is left that this level of cost  
12 is itself a final measure of what a rate or price  
13 ought to be. This, of course, is misleading.

14 Any reference to fully distributed costs  
15 should take into consideration whether the  
16 elasticity of transportation demand by the  
17 commodity in question is greater or less than that  
18 of all traffic combined.

19 The really significant use of fully distributed  
20 costs lies in those types of proceedings where  
21 comparative total railroad costs are desired by  
22 regions or territories. The Class Rate Investi-  
23 gation (Docket 28,300) was one illustration.  
24 Division cases constitute another use."

25 Those were your opinions on January 27, 1954,  
26 and I assume you have no reason to change your opinions  
27 today on the real use of fully distributed cost and  
28 the utilization of it for rate-making purposes?

29 A. No sir, except the last sentence:

30 " Division cases constitute another use."

Q. Yes?

A. I would like to have deleted that sentence







1  
2 because in a recent division case where we found the  
3 consist of traffic available to the respective carriers  
4 and the earning potentialities of these types of  
5 traffic to vary widely, that this is not a perfectly  
6 true statement as a guide to divisions. I have already  
7 said that, earlier, in the Florida East Cost Divisions  
8 case, and I overlooked the problem I faced then and  
9 commented on when I wrote this. This has been  
cited to me at various times.

10 Q. If you were re-writing this document in  
11 1960 you would leave out that sentence, from your  
12 experiences since?

13 A. Yes. The substance of this is that rates  
14 are based on costs plus value of service.

15 Q. And the ability to pay?

16 A. Well, the ability to pay and value of service  
17 are the same thing.

18 Q. Well, it may or may not be the same thing.  
19 It may be part of the value of service concept --  
20 elasticity in demand might make the basis for a value  
21 of service; in other words, you might have a commodity  
22 which is captive to a carrier and, therefore, there  
23 is no elasticity of demand, and yet that commodity  
24 would not be able to pay. You would have one of the  
25 ingredients that you mentioned, where you have a  
26 commodity -- the demand factor for a particular type  
27 of competition media is elastic, and would move either  
by rail or truck or some other means; that factor would  
come into the value of service.

28 MR. SINCLAIR: I must say I am completely  
29 confused at the economic use of the terminology of  
30





1  
2 learned counsel and where he is applying the elasticities  
3 to.

4 MR. MAURO: Perhaps my learned friend is  
5 confused.

6 MR. SINCLAIR: Well, I must understand the  
7 question.

8 THE CHAIRMAN: Well, we will take a short  
9 recess now.

10 --- Short recess.  
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2 THE CHAIRMAN: Now, have we resolved the  
3 difficulty of the question?

4 MR. MAURO: We resolved it, but we will  
5 approach it in another manner.

6 Q. Dr. Edwards, I am referring now to a  
7 document, ICC document 31711, an exhibit by Ford K.  
8 Edwards, fresh vegetables, Arizona, New Mexico, with  
9 the explanation of traffic study and cost study pro-  
10 cedures in fresh vegetables, and under the heading "The  
11 Meaning of Costs", at page 6 this appears:

12 " The term 'costs,' has been employed in not  
13 one, but two senses of the word. The  
14 narrower use of the term 'costs' is applied  
15 in the 'out-of-pocket' sense, i.e., to the  
16 avoidable costs. The Cost Section and the  
17 Commission have so employed these terms.

18 In contrast, the term 'costs', when applied  
19 in its broader sense embraces the totality  
20 of costs. It connotes total revenue re-  
21 quirements and embraces such considerations  
22 as adequate return on investment, financial  
23 integrity, carrier credit and the like.  
24 It also encompasses questions as to pass-  
25 enger deficits, sources of funds, the  
26 distribution of overhead burden among the  
27 traffic in issue and other groups of traffic  
28 handled, the carriers' dependence upon the  
29 instant traffic, and like considerations.  
30 These elements go to the concept of costs,  
or total revenue needs, as contemplated  
in Sect. 15A of the Act.

This distinction between 'costs' in the  
narrower sense and 'costs' in the broadest  
sense, i.e., total revenue needs, was drawn  
by the Commission in its report in the  
Docket 28300 Class Rate Investigation, when  
it said:

'Rail costs are fundamentally divisible into  
two components. First, those expenses which  
vary directly with the traffic handled, and  
hence are directly assignable to particular  
kinds of traffic, i.e., the out-of-pocket or  
variable expenses, and secondly, those expenses  
of a constant or fixed character, which are  
not capable of assignment to particular kinds  
of traffic, and which must be borne by the  
various kinds of traffic in proportion to the  
ability of each to pay.'





1  
2 That is the end of the quotation.

3 " The first component of the rail expenses,  
4 as defined above, reflects cost in the narrower  
5 sense. As the Commission indicates, this is  
6 as far as cost finding as such can go."

7 I wondered whether it remains your opinion  
8 today?

9 A. Yes, as far as it can go in the narrower  
10 sense as I have defined it.

11 Q. And in the fresh vegetables case you quoted,  
12 with approval, the ICC document 28300 to the effect:

13 " ....those expenses of a constant or fixed  
14 character, which are not capable of assignment  
15 to particular kinds of traffic, and which  
16 must be borne by the various kinds of traffic  
17 in proportion to the ability of each to pay"

18 Does your statement, Dr. Edwards, at page 7:

19 " The first component of the rail expenses, as  
20 defined above, reflects cost in the narrower sense.  
21 As the Commission indicates, this is as far as  
22 cost finding as such can go."

23 This as of 1960 remains your opinion?

24 A. Yes; but I don't want to be misinterpreted,  
25 because, as the Supreme Court said in North Dakota  
26 versus the Northern Pacific, or vice versa, the total  
27 cost must be kept in mind, so you cannot be unaware of  
28 revenue needs when you make a cost study. So you have  
29 to evaluate that statement in the light of those  
30





1  
2 definitions of terms.

3 Q. But you haven't changed your mind one bit,  
4 Dr. Edwards, to the effect that avoidable costs,  
5 variable costs, out-of-pocket costs, whatever term  
6 you want to apply to them, is as far as cost finding  
7 can go, and that constant and fixed costs must be  
8 distributed in proportion to the ability of the traffic  
9 to bear?

10 A. Yes. It actually involves economic and  
11 traffic considerations.

12 Q. That was your opinion in the fresh vegetable  
13 case, and then on March -- we brought you up to 1954  
14 and 1955 -- you remember being cross-examined by  
15 Mr. Aldredge at West Palm Beach in 1958 in what is  
16 commonly referred to as the Southern Governor's case.  
17 I am quoting from the volume, 25 pages, 7952 to 7988  
18 of the examination. There was a question by  
19 Mr. Aldredge:

20 " Q. Would you in the light of your experience  
21 in transportation, Dr. Edwards, expect all  
22 commodities or all groups of traffic to produce  
23 their fully distributed costs?

24 A. I would expect them all to produce in  
25 proportion to their ability to pay, or stated  
26 another way, giving weight to the effect of the  
27 rates on the movement of the traffic, which  
28 goes back, I think, to Section 15(a)."

29 Does that opinion of yours, voiced in March,  
30 1958, remain your opinion on May 30, 1960?

31 A. Yes; and I might add that the through rates  
32 in grain were found to be close to fully distributed  
33 costs. That was a ton and ton-mile apportionment.







1  
2 Q. On page 13 of the January 27, 1954, document,  
3 this appears:

4 " The major use of full cost figures has  
5 been in division cases or territorial rate  
6 proceedings where the general level of the  
7 respective total costs of transportation ..."

8 A. Pardon me, is this the same speech?

9 Q. Yes, it is the same speech.

10 A. On page?

11 Q. Page 13.

12 A. Yes, sir.

13 Q. "The major use of full cost figures has  
14 been in division cases or territorial rate  
15 proceedings where the general level of the  
16 respective total costs of transportation  
17 service has been in issue.

18 From time to time over the past several years  
19 suggestions have been made that individual rates  
20 and rate structures be brought much more into  
21 line with some full average cost figure; or,  
22 indeed, based on full costs. . Taken at extreme,  
23 the apparent implication here is that the value  
24 of the service be given much less attention, or  
25 even ignored. This would move the pricing of  
26 services produced under conditions of constant  
27 costs from any market reality substitutes arbitrary  
28 apportionments irrespective of their effect on  
29 the traffic flow or on the carriers net revenues.

30 Parties advancing these suggestions may have  
been concerned with what seemed to be unduly  
wide departures from cost standards or from





1  
2 " value-of-service criteria. To illustrate, a  
3 situation may arise where one agency of trans-  
4 portation has cut its rates severely to prevent  
5 further diversion of traffic to another agency  
6 or to recover traffic already lost.

7 Whatever the reason, however, full average  
8 costs are believed to offer but very precarious  
9 support for the determination of rates. As a  
10 matter of relationship it is true that one expects  
11 to find volume-moving traffic with a elastic demand  
12 moving at rates below 'fully distributed costs,'  
13 and traffic with a relatively inelastic demand  
14 bearing rates above this 'dead-center' point.  
15 But even here the very rise of substantial inter-  
16 agency competition may promptly change a  
17 comparatively inelastic demand for a given carrier's  
18 services into one which now becomes highly elastic.

19 The gist of the foregoing is that the fully  
20 distributed costs are no substitute for a vigorous  
21 appraisal of the effect of the rates on the move-  
22 ment of the traffic. The greater the body of  
23 constant costs or overhead burden present in the  
24 carriers' operation the more necessary an appraisal  
25 of the value of the service or the intensity of  
26 the demand becomes."

27 You would today advance that same statement,  
28 Dr. Edwards, as your position in regard to the use or  
29 or utility of fully distributed costs for rate-making?

30 A. Yes, sir.

Q. Now, would you refer to page 2758 of the







1  
2 transcript, volume 19. Towards the bottom of the page  
3 this appears:

4 " In the cost studies of both railways, the  
5 share of the constant costs apportioned to the  
6 heavy loading grain traffic is based on the pro-  
7 portion of study traffic variable expenses to  
8 total freight variable expenses, excluding the  
9 costs of solely-related facilities: that is  
10 to say, on the method used and later abandoned  
11 by the cost section of the Interstate Commerce  
Commission."

12 Now, as you are aware, Dr. Edwards, the  
13 Canadian railways have submitted this cost data and  
14 cost study and the results of them in support of a  
15 new rate on export grain?

16 A. Yes.

17 Q. And does your opinion that the apportionment  
18 of the constant costs in the grain study are justifiable  
19 and therefore the rates being requested are, in fact,  
20 just and reasonable?

21 A. Well, the second part of your sentence bothers  
22 me when you say "and therefore the rates are just and  
23 reasonable". No. Do you want me to explain that?

24 Q. No. That is what I expected and hoped that  
25 you would say. The simple fact that you are supporting  
26 the cost study, we should not take that to mean that  
27 you are making the statement that the rates requested  
28 are just and reasonable.

29 A. I believe the rates requested are just and  
30 reasonable, but not because they approach this fully  
distributed cost apportionment; it rests on other





1  
2 factors.

3 Q. Surely for your purposes and for the purposes  
4 of this Commission, if those rates are just and  
5 reasonable, they are just and reasonable because of  
6 the cost data that had been submitted?

7 A. That is a contributing factor, a contri-  
8 buting element, but you are asking me to undo all  
9 you have been reading to me, and I have been agreeing  
10 that traffic considerations when given by Mr. Roberts  
11 and Mr. Crump have no element in their analysis of  
12 the relationship of these proposed rates to the whole  
13 rate structure of Canadian Pacific.

14 Q. I am interested in the fact that one of  
15 the cost studies submitted by the railroads in support  
16 of this new rate on export grain is only one of the  
17 contributing factors. What do you think of the idea  
18 of the railroads that the money, the increases should  
19 not be borne by the shipper but by the national  
20 treasury -- you as a rate-maker? What do you think  
21 that does in determining ability to pay? Do you have  
22 any comments on that, Dr. Edwards, where the railways  
23 have stated in evidence that the farmer should not  
24 pay any more?

25 A. Oh, I think it has a lot to do with the  
26 ability to pay; it does, indeed. It is a question of  
27 who pays for this -- the shareholders earning a very  
28 depressed return or some other group -- to take on this  
29 broad burden of seeing that this grain moves.

30 Q. What does it do to you as a rate-maker --  
and that is your position here, and you are described  
and properly described as an expert on this rate-  
making, and if you were sitting down, if you were still





1  
2 in the cost section of the ICC, coupled with a demand  
3 for a specific rate, and you would have to determine  
4 whether it was a just and reasonable rate, you would  
5 assess whether or not the farmer could pay this rate,  
6 and would you come to the conclusion that fully  
7 distributed costs, the full costs as suggested by  
8 the railways, was a just and reasonable rate?

9 A. I would appraise it in the light of the  
10 appraisal made and I would ask myself the question:  
11 will this traffic continue to move under this proposal?--  
12 and I assume it will continue to move because the  
13 rate is not going to be borne, the increase under  
14 the proposal, by the shipper-farmer or by the buyer.

15 Q. Would you as a rate-maker take into con-  
16 sideration a rate that was going to be, in error,  
17 a just and reasonable rate, a rate which the shipper  
18 couldn't pay, but because you had some information  
19 that perhaps the federal treasury would cover it,  
20 that it was a just and reasonable rate?

21 A. As a rate-maker I would look at all the  
22 relevant circumstances relating to the rate structure  
23 and rate relationships which are here pertinent, and  
24 I would first endeavour to relate these grain rates to  
25 some proper basis. I think it is improper; there is  
26 a severe economic problem when you endeavour to move  
27 a product and sell at 1960 prices but want the supplier  
28 of the service to service you at 1899 prices.  
29  
30







1  
2 So I would look to the proper measures of  
3 the levels of the rate itself, and then I would come  
4 back and ask myself this question that you posed:

5 "Now, if I put an appropriate rate based on  
6 rate-making considerations and the increase  
7 in the rate levels and price levels in the  
8 last sixty years"

9 having arrived at that then I would ask myself:

10 "What will be the effect on the movement of  
11 the traffic?"

12 If I know, and I am assured under the proposal  
13 here made, that there will be no effect on the  
14 movement of the traffic, I would certainly give that  
15 a vital consideration.

16 Even if there were no effect on the movement  
17 of the traffic, the fact that it is moving at some  
18 15 to 17 million below out-of-pocket cost would be  
19 a serious element of consideration.

20 Q. Exactly, and I suggest you, Dr. Edwards,  
21 that if you were the rate-making body in this  
22 case, you would take those fully distributed costs and  
23 say to the railways:

24 "Run along home, boys. We are going to give  
25 you a rate which is above out-of-pocket which  
26 at this volume of traffic at that revenue,  
27 considering the ability of this traffic to pay"  
28 - just as the position you properly took on coal  
29 costs, just as the facts of the carriage of  
30 coal in the United States for under full distributed  
costs have evidenced --- that a traffic such as  
grain, moving at something less than fully  
distributed costs to above variable





1  
2 costs will return a very definite contribution  
3 to the overhead because of its volume movement.

4 A. I certainly would not, Mr. Mauro.

5 Q. I would like to refer you to ICC document  
6 31-874. This is the cross-examination in  
7 West Palm Beach, Florida, by Mr. Alldredge, and  
8 he is questioning you at page 6:

9 "You have had something to say about that  
10 question about further distributed costs  
11 heretofore, haven't you, Dr. Edwards?

12 A. Yes sir.

13 Q. I want to read you something you said  
14 heretofore. You made a talk, did you not,  
15 on or about January 1st, 1953 before the  
16 Fifth Institute of the Industrial Transportation  
17 Traffic Management...in Washington, D.C.

18 A. I presume I did.

19 Q. Well I --

20 A. I will take your word for it. I don't  
21 remember them all.

22 Q. Well, I will read you something you were  
23 purported to have said.

24 A. I will accept that surely, Mr. Alldredge

25 Q. On page 7 of the publication which carried  
26 your talk or speech, you said this under a  
27 caption head 'The concept of fully distributed  
28 costs.'

29 Now I shall quote:

30 'The so-called fully distributed costs are  
figures which embrace all the carrier revenue  
requirements, including not only the variable  
expenses but also the constant expenses, the







1  
2 burden laid on the freight traffic by the  
3 passenger train service deficits, and an  
4 allowance for a return on the property at  
5 some given figure."

6 Continuing the quotation:

7 "This brings up the interesting philosophical  
8 question as to how one can apportion constant  
9 expenses to separate pieces of traffic on a  
10 cost-of-service basis when by very definition  
11 the constant costs are are an indivisible  
12 whole. The answer, of course, is one can't.  
13 The treatment must be arbitrary and this  
14 in turn calls for an explanation."

15 THE CHAIRMAN: As I understand it, you  
16 are not influenced in any way by the submission of  
17 the railways here that the state should make a  
18 contribution to the cost?

19 A. No, I am not passing on whether the State  
20 should make a submission. I am influenced by the  
21 effect of the rates on the movement of the traffic.

22 Q. That is your sole consideration?

23 A. That is - well, it is not the sole  
24 consideration.

25 Q. The main one.

26 A. If you say we are entirely inelastic, you  
27 might come up to two or three times fully distributed  
28 costs, but you keep them right within the balance  
29 of broad and established rate relationships as a  
30 rule.

Q. That is, the source of the return to  
the carrier is immaterial?





1  
2 MR. FRAWLEY: I would certainly make it  
3 clear, I believe, Mr. Chairman, you have asked  
4 a very pertinent question, and I would like to  
5 know where Dr. Edwards stands. Is he taking  
6 into account the fact that because of the inability  
7 of the western farmer to pay then the rate  
8 should be where it should be, or is he paying any  
9 regard whatever to the fact that the Canadian  
10 Pacific Railway ask the Federal Treasury to pick  
11 up the difference. I don't think we should leave  
12 it. I want to make it very clear.

13 MR. SINCLAIR: Certainly if we are going to  
14 argue the case now, this is the time to argue it,  
15 although this was cross-examination by Mr. Mauro.

16 MR. FRAWLEY: Never mind why, that is a  
17 remark addressed to me.

18 THE CHAIRMAN: I would like to have that  
19 answer pretty clear now.

20 MR. MAURO: Q. I will put it again because  
21 it was part of cross-examination and I thought you  
22 told me you took into consideration when  
23 assessing full cost increase demanded by the railways  
24 the fact that the farmer would not be expected to  
25 pay them. Did I misinterpret that or misunderstand  
26 it?

27 A. No, you did not.

28 Q. That was taken into consideration in your  
29 assessment of this rate that the railways were  
30 requesting?

A. That the traffic would move freely, whatever  
the reason, at the proposed rate level.

Q. And that you took that into consideration and





1  
2 the fact that the traffic would continue to move,  
3 because under the C.P.R. proposal, the railway  
4 proposal, the money would be provided by the Federal  
5 Treasury and therefore the traffic would continue  
6 to move.

7 A. That is right, that is the proposal here.

8 Q. Now, what I read to you concerning this  
9 Southern Governors case and this interesting  
10 philosophical question as to the apportionment of  
11 constant costs, and your statement under cross-  
12 examination that the fact is that it cannot be  
13 determined but it must be an arbitrary decision,  
14 you feel that the arbitrary decision of the Canadian  
15 Railways in the grain cost study is nonetheless  
16 a just and reasonable decision.

16 A. What decision are you talking about here?

17 Q. Well, you said in the Southern Governors  
18 case, you said to Mr. Alldredge --

19 A. What Canadian Pacific Railway decision  
20 are you taking now?

21 Q. You haven't changed your mind that the  
22 apportionment of constant costs is necessarily an  
23 arbitrary decision.

24 A. You mean the statistical apportionment  
25 of constant is an arbitrary decision?

26 Q. Yes.

27 A. Yes.

28 Q. So that in the study that this Commission  
29 has before it, you are taking the position that  
30 the arbitrary statistical apportionment of constant  
costs in that grain study is just and reasonable?

A. Yes, but not because of the statistical







1  
2 apportionment.

3 Q. And do you feel that full costs as  
4 requested is in fact a just and reasonable rate in  
5 this case?

6 A. Yes sir.

7 Q. I wanted to just put on the record that  
8 in the United States the contribution of coal is  
9 54 cents per ton above out-of-pocket, and  
10 manufactured iron and steel contribute \$5.01 above  
11 out-of-pocket per ton, that is, just about ten  
12 times the contribution of coal, and yet coal  
13 contributes \$201 million to overhead while iron  
14 and steel contribute only \$167 million to overhead  
15 Therefore, Dr. Edwards, if you had been the  
16 rate man --

17 THE CHAIRMAN: Is that a question? Does he  
18 agree to those figures?

19 THE WITNESS: I haven't got the question yet.

20 MR. MAURO Q: The chairman was asking whether  
21 you agree with my figures. So that there will  
22 be no question about that I am obtaining those  
23 figures from the burden study, Dr. Edwards, page 10.

24 MR. SINCLAIR: 1957? Issued '59?

25 MR. MAURO: Issued '59. Page 10, table 4,  
26 leading commodities contributing to the transportation  
27 burden by territorial movements.

28 Q. You can read over my shoulder, Dr. Edwards.

29 A. I will get the burden study out here if  
30 we are going to work on it. I will accept your  
figures.

Q. It is 169 to 201. So that the question,  
Dr. Edwards, assuming those figures to be correct,





1  
2 is that if you were the rate-maker in the United  
3 States when you were setting that rate on coal,  
4 allowing only 54 cents per ton above out-of-pocket,  
5 you were making a very wise decision, because  
6 in contributions to overhead coal at that very  
7 low rate was contributing more than iron and steel  
8 which, at a rate that returned \$5.01 towards  
9 overhead per ton was going to even contribute  
10 less. I suggest to you, Dr. Edwards, that  
11 similarly in this grain cost study a rate-maker  
12 could very properly arrive at a rate returning  
13 something considerably less than fully distributed  
14 costs, and due to the volume movement of grain in  
15 Canada grain would make a far greater contribution  
16 to revenue, to overhead or burden, than other  
17 products returning fully distributed and three  
18 times fully distributed costs.

19 Would you agree that a rate could be set on  
20 grain in Canada which, while not returning fully  
21 distributed costs, would make a very real  
22 contribution to the revenue and overhead burden of  
23 the railways due to the volume movement of the  
24 commodity?

25 A. Well, I find it difficult to answer. Is  
26 that within the premise that there will be no aid  
27 by the Dominion government?

28 Q. Let us consider it in that fashion, that  
29 there will be no aid, because we are just thinking  
30 about separate rates.

A. Then I would say this rate structure, as  
proposed, and after reading the points advanced by  
Mr. Roberts as traffic manager, and Mr. Crump on







1  
2 revenue need, and the history of rates over the  
3 last sixty years on other commodities, that it  
4 seems to be a just and reasonable rate.

5 Now, the question posed to me, that what would  
6 be the movement of the traffic if there were  
7 no assistance, I have not contemplated that.

8 Q. Would you, as a rate-maker, Dr. Edwards,  
9 - I will be very surprised at anything but one  
10 answer to this question, but I am interested in your  
11 comments on it - would you as a rate-maker, and  
12 not considering any contribution from the federal  
13 treasury, would you for one minute have contemplated  
14 a rate of fully distributed costs on grain -  
15 taking out of your mind completely contributions  
16 from the federal treasury?

16 A. Well, my first reaction is in the  
17 Southern Governors case we certainly contemplated  
18 a fully distributed rate on grain and very heavy  
19 movement of the lower rated grain products.

19 Q. How about in Canada, Dr. Edwards?

20 A. Now, I find it difficult to answer that,  
21 and I have not contemplated. The United States  
22 takes certain actions to assist the grain farmers,  
23 enormous actions, with parity arrangements and so  
24 on, and there the mode of operation of the government  
25 is quite different than what it is on this side,  
26 and assisting the wheat farmers, so that that is  
27 all part of the whole picture here.

27 Q. Again I suggest to you, Dr. Edwards, that  
28 if you were the rate-maker you would not treat  
29 grain in Canada any differently than you treated  
30 coal in the United States in determining a rate





1  
2 below fully distributed costs, but a rate which  
3 would move the traffic and make a very real  
4 contribution to overhead; and that is what you,  
5 as a very experienced and sound rate-maker would  
6 in fact do. I am saying, Dr. Edwards, that  
7 taking out of your mind this matter of federal  
8 contribution, that you never would have set a  
9 rate of fully distributed costs for grain; that  
10 without federal contribution, you would have  
11 come to the conclusion that ability to pay and  
12 traffic movement on something less than fully  
13 distributed, would be a fair contribution to  
14 revenue?

15 A. Well, let us put it this way. I did  
16 consider the federal contribution, and within  
17 the framework of that contribution I gave most  
18 to the question of potential effect on the  
19 movement of traffic and I would always do that.

20 Now, if there were no federal  
21 contributions in that form, there might be federal  
22 contribution through assistances in other forms,  
23 I don't know.

24 But to answer your question directly,  
25 if the setting were entirely different, why, we  
26 would look at the effect of the rates on the  
27 movement of the traffic.

28 Q. Then I will put one final question on it.  
29 If the American government would subsidize the  
30 coal rates, would you recommend fully distributed  
costs on coal?







1  
2 A. I would suggest that coal rates be  
3 brought in harmony with the proposed rate increases,  
4 whatever those might be.

5 Q. Are you suggesting that they are not  
6 proper increases?

7 A. You are suggesting that if the United  
8 States said tomorrow, "We will pay all the coal rates.  
9 We are interested in the survival of some of these  
10 roads that are having a very difficult time at the  
11 present time" -- whatever the background may be . . .

12 Q. Is the Pocahontas road having a difficult  
13 time?

14 A. You speak of the Pocahontas road. There  
15 are roads besides the Pocahontas road.

16 Q. Fine. Then, Dr. Edwards, with coal  
17 making this fantastic contribution of \$261 million to  
18 overhead, if the government came out and said "We will  
19 subsidize the movement of coal," would you recommend  
20 that coal share the fully distributed cost?

21 A. I didn't say that. I said if the  
22 government found it essential and if coal were moving  
23 at the rates of sixty years ago. They are not doing  
24 that.

25 Q. You and I both agreed on what coal was  
26 doing, and we both agreed that necessity comes into the  
27 consideration. You come before this Commission making  
28 recommendations for a just and reasonable rate, and  
29 the fact that the Dominion Government would be asked to  
30 make up this difference, and I am trying to bring it into







1 your experience in the United States , because you  
2 said that government participation was different in  
3 Canada than in the United States. I am trying to nail  
4 you down as to the basis for a just and reasonable rate.  
5

6 In the light of the very real contribution coal  
7 is making without paying fully distributed costs, would  
8 you, if the United States government said "We will  
9 subsidize the movement of coal," therefore recommends  
10 a rate based on the fully distributed cost of coal?

11 A. I can't answer that question; that is  
12 beyond me.

13 Q. Then, I want on this same matter of  
14 fully distributed cost again to refer to the examination  
15 at West Palm Beach by Alldredge. In volume 25 -- I have  
16 given you this quotation -- I have referred to it a  
17 couple of times -- from their January 1953 paper and  
18 the paper of January 27, 1954:

19 "Discussing this subject under the  
20 caption 'Comment on fully distributed  
21 costs,' you are reported to have said this,  
22 and I quote: 'What purpose does the fully  
23 distributed cost serve? This question  
24 merits serious consideration, as these costs  
25 are something referred to by parties in  
26 speeches, testimony or brief without adequate  
27 explanation or qualification. Sometimes the  
28 impression is left that this level of cost  
29 is itself a final measure of what a rate or  
30 price ought to be.





1 "This, of course, is misleading. Your  
2 effort to fully distribute costs should take  
3 into consideration whether the elasticity of  
4 transportation demands of the commodity in  
5 question is greater or less than all traffic  
6 combined.  
7

8 'The really significant use of fully  
9 distributed costs lies in those types of  
10 proceedings where comparative total railroad  
11 costs are designed by regions or territories.  
12 The class rate investigation, Docket 28300,  
13 was one illustration. Division cases  
14 constitute another use . . ."

15 which you and I have already discussed.

16 Then, Dr. Alldredge asked you this question,  
17 Dr. Edwards:

18 "Have you changed your mind in this case  
19 about your previous ideas on this question?"  
20 Your answer was:

21 "Well, I have said a great deal and testified  
22 a great deal since I stated that, and my  
23 qualification -- my qualifying of the use of  
24 fully distributed costs on a unit basis I  
25 think would be the same today as it was then.  
26 It has a limited utility for rate making . . ."

27 MR. SINCLAIR: It is difficulty to keep  
28 all that in mind.

29 MR. MAURO: I read more than was necessary.  
30 Dr. Edwards and I have discussed this quotation. I







1 just wanted to put in the quotation.

2 MR. SINCLAIR: It might help the witness if he  
3 got to the context and followed it.

4 MR. MAURO: Q. You remember the Southern  
5 Governor's case, Dr. Edwards?

6 A. Yes.

7 Q. Mr. Alldredge's cross-examination of  
8 you in that case?

9 A. I remember being in West Palm Beach!

10 Q. How could anyone forget?

11 A. The hearing is a little hazy!

12 Q. Do you remember when he quoted to you  
13 the quotation that I have referred to once or twice and  
14 then said, "Have you changed your mind in this case about  
15 your previous ideas on this question?" And you  
16 answered "Well, I have said a great deal and testified  
17 a great deal since I stated that, and my qualifications  
18 -- my qualifying of the use of fully distributed costs  
19 on a unit basis I think would be the same today as it  
20 was then. It has a limited utility for rate making.

21 Certainly you are not bound by what you said  
22 in West Palm Beach in Ottawa. Do you agree that fully  
23 distributed costs have very limited utility for rate  
24 making?

25 A. Well, I always considered that they had  
26 some utility, because we certainly put them in for the  
27 purpose of indicating how grain was doing in relation  
28 to other traffic in contributing towards the revenue needs.  
29  
30





1           Where you have, as we had there, grain as a  
2 major product in these days of larger need, in that  
3 case all the principal grain roads of the west -- there  
4 have even been proposals -- it is always interesting  
5 to look at the totality of the cost involved, because  
6 whenever you study the major commodity it has obviously  
7 got to have a bearing on the situation of the total  
8 revenue needs of the carriers.

9           In that case it was my suggestion -- and  
10 concurred in by the carriers -- that we make a showing  
11 of the relationship of the grain rate to the total  
12 requirements of the roads of the west; and that is the  
13 purpose of the fully distributed costs; and it comes  
14 up in the case of parties who say: "Well, here are the  
15 out-of-pocket costs.   Where are the other costs?"

16           One of the reasons I have laboured as hard  
17 as I have on the subject of interpreting the fully  
18 developed costs is that one of the first studies that  
19 came from the ICC on grain was taken by a great  
20 many persons who said: "Now, we have no problem on  
21 rate making.   Here are the full costs.   You don't  
22 need your costs of the value of service."   I was  
23 immediately thrown on the defensive by the efforts of  
24 a great many parties to use them as a guide.

25           Three or four years ago even the Presidential  
26 Advisory Committee on Transportation came out with a  
27 statement -- with the proposal -- that the ICC should  
28 have no authority to set rates below fully distributed  
29 costs, which is an astonishing thing and got nowhere;  
30 but at least it offered this proposal.







1 THE CHAIRMAN: In your view can you dis-  
2 regard the value of service in any rate?  
3

4 THE WITNESS: No.

5 MR. MAURO: Q. You are not for one moment  
6 changing your mind from what you have already said,  
7 which has been a constant position you have taken from  
8 1943 and 28300 right down to the Southern Government  
9 case in 1958, that for rate making purposes fully  
10 distributed costs are an interesting statistic but  
11 have limited utility for rate making since they do not  
12 take into consideration value of service?

13 A. That is right; but somehow I find myself  
14 putting them in because some party wants to look at them.  
15 If you leave them out you are accused of withholding  
16 something; so we go through this expression. But it  
17 serves a useful purpose in relating, on some basis,  
18 to parties who are looking towards giving some recog-  
19 nition to the totality of the revenue requirements and  
20 constant costs -- they are useful in reducing them in  
21 some way to something that the mind can grasp -- either  
22 the percentage basis or the ton and ton mile basis;  
23 but then you are asked to qualify these figures on the  
24 basis you have read to me.

25 Q. And later on in this examination by  
26 Aldrich he asked you this question:

27 "Dr. Edwards, will you agree with me  
28 in this statement that it is the interplay  
29 of economic forces which actually distributes  
30 the overhead burden of transportation costs







1 among the different groups of traffic?"

2 And your answer was:

3 "Yes, sir."

4 You have no reason to say anything different  
5 before this Commission now, Dr. Edwards? You do  
6 believe very firmly that in the final analysis it is  
7 the "interplay of economic forces which actually  
8 distributes the overhead burden of transportation costs  
9 among the different groups of traffic"?

10 A. Yes, that is a very broad term; but within  
11 that there are encompassing considerations of all which  
12 share the whole rate structure and rate relationship.

13 Q. Would you look at page 2659 of Volume 19  
14 -- right at the bottom of the page:

15 "As stated earlier, the development of  
16 empty car miles charged to the study traffic  
17 excluded empty car mileage on cars used in moving  
18 western grain crop to export positions where  
19 this mileage occurs east of the lakehead.  
20 In this way there has been an understatement  
21 of the empty car miles that could have been  
22 charged to the study traffic. In my  
23 opinion the method used to develop empty car  
24 miles and gross ton miles -- empty for the  
25 study traffic is conservative. The tests  
26 applied validate the samples used and checks  
27 made show that the work was carried out in a  
28 proper manner."

29 I wonder if you could tell us what would have been the  
30





1 result if post empty movement had been used instead  
2 of prior empty movement?

3 A. I don't know.

4 Q. Would you have expected, from your long  
5 experience in costing, that the post empty movement  
6 would result in less empty car days chargeable to the  
7 study traffic than the method utilized by the Canadian  
8 railways?

9 A. No. Most of the studies that I have  
10 made in tracing have been similar to the basis used  
11 here.

12 Q. You use prior empty movement?

13 A. Prior empty movement when a car was on  
14 its way to its loads and was, in fact, assigned, having  
15 in mind its utilization in a given area or loaded  
16 movement.

17 Q. Did you use prior empty movement in  
18 Document 31503, the Mountain Pacific case?

19 A. Well, I was thinking of the Grain case --  
20 the one you have just cited.

21 Q. What about the grain study case--  
22 which is a particular type of case which we will discuss  
23 a little later on? What about the Mountain-Pacific  
24 Case, Exhibit 315 of 315-3?

25 You were discussing this matter yesterday --  
26 the method used -- and this appears at page 44 of  
27 that exhibit:

28 "The alternative to the cost method  
29 followed in the Mountain-Pacific roads' study  
30







1  
2 (i.e., associating all of the loaded refrigerator  
3 car miles involved with the shipment of mis-  
4 cellaneous merchandise westbound) is to charge  
5 the car miles against the eastbound perishable  
6 traffic.

7 "This follows from the fact that if the  
8 westbound merchandise had not been loaded in  
9 these refrigerator cars, the empty return movement  
10 chargeable to perishable traffic would have been  
11 greater. The procedure used, however, follows  
12 the actual handling of the traffic, as well as  
13 reflecting the manner in which the statistics  
14 are reported to the Interstate Commerce Commis-  
15 sion. It is believed to be the most appropriate  
16 basis for assigning costs to the individual  
17 traffic. The two methods of charging empty car  
18 miles are not offsetting on their effect on  
19 costs. This is partly because of the failure  
20 of Witnesses Carpenter and Haywood to recognize  
21 the extra switching, station and platform handling  
22 costs involved in transloading. Furthermore,  
23 the failure to trace the cars in situations such  
24 as the foregoing means that an unduly low  
25 empty return is charged to perishables without  
26 any corresponding recognition of the added  
27 loaded car miles used by westbound transcontinen-  
28 tal traffic.





1 Now, I would also want to refer to ---

2 A. Let me say that it was not a problem of  
3 empty return. That was a problem of the basis of count  
4 of transloaded cars at such places as Kansas City. The  
5 Sante Fe and UPE, and certainly railroads having stop-  
6 off cars bound for two or three destinations in  
7 California, instead of sending it west through Kansas  
8 City loaded, paralleled and going to three destinations,  
9 and that boxcar of 30 tons -- ten tons each -- going  
10 to three different California cities, followed the  
11 practice of taking the empty reefers and transloading  
12 that load out of the boxcar at Kansas City into the  
13 three reefers, and sending the three reefers to Califor-  
14 nia, where they were going, anyway. That, of course,  
15 reduced our allowance on the net divisions case on the  
16 Mountain Pacific roads for empty return, but what was  
17 provoking among other things, was that other parties  
18 did not want to allow for the cost of the transloading  
19 which was offset by the reduction in the empties, and  
20 that didn't have anything to do with the prior or after  
21 empty return movements. As I recall that problem, it  
22 was a transloading problem and how you count the loads  
23 and the empties.

24 Q. You state that this follows from the fact  
25 that if the westbound merchandise had not been loaded  
26 in these railway cars, the empty return movement  
27 chargeable to perishable traffic would have been  
28 greater. So, you certainly are contemplating empty  
29 return movements in the amount chargeable to perishable  
30





1 traffic?

2  
3 A. That was on the entire movement. Those  
4 cars were traced loads from California to the desti-  
5 nation in New York City, and they were in that ser-  
6 vice, and the empty return ratios movement covered  
7 the entirety of the operation. As far as you are  
8 concerned on that, these empties were headed westbound  
9 to pick up another load to take to New York City.

10 Q. Were you charging them post empty move-  
11 ment or prior empty movement?

12 A. We took the empty movement on those as  
13 experienced by our transcontinental lines. They went,  
14 say, with a load of lettuce to break it off at Kansas  
15 City, and they broke it off there and headed west.  
16 You can call it what you like. I suppose it would  
17 be a prior empty movement.

18 Q. Well, what do you mean by "empty return  
19 movement"?

20 A. I mean the empty return movement that  
21 can be associated with the load involved.

22 Q. If the perishable goes from California  
23 to New York City and comes back empty, what do you charge  
24 that movement? What is the empty movement -- do you  
25 charge it with the movement of the car originating in  
26 New York and moving to California and picking up a load  
27 and going to New York and coming back empty, or is it  
28 the post or prior movement you are charging against  
29 that shipment from California?

30 A. You are taking a car from California to







1 New York loaded, and how we charge the empty back?

2 Well, that was costed by territories: the empty  
3 relationships experienced over the eastern roads, the  
4 midwestern roads and the transcontinental roads.

5 Q. Would that be a post empty movement or  
6 prior empty movement?

7 A. Well, as far as the transcontinental  
8 roads are concerned, it was headed back to get another  
9 load.

10 Q. And that would be post?

11 A. Well, it was prior to.

12 Q. It is heading back?

13 A. You come up with the same answer either  
14 way, don't you, in that situation? If we transloaded  
15 these cars, as I recall -- and this is two or three  
16 years ago -- we transloaded those cars at Kansas City,  
17 then they became loaded cars and we didn't get any  
18 credit for any empty movement. The roads eastward  
19 get the credit for the empty against their load.  
20

21 ---Luncheon adjournment.  
22  
23  
24  
25  
26  
27  
28  
29  
30





1 On resuming at 2:00 p.m.

2 THE CHAIRMAN: Order, please. Mr. Mauro?

3 MR. MAURO Q: Dr. Edwards, just before  
4 carrying on with our discussion, you and I touched  
5 upon this matter of treatment of cost and cost  
6 of passenger and freight in Canada and the United  
7 States, and you mentioned that in the United  
8 States the passenger services were perhaps more  
9 important and in Canada more incremental, and I  
10 have drawn off some figures over the noon recess  
11 which I will put on the record as to class I  
12 United States railroads, and I obtained figures  
13 from a publication, Association of Western Railways,  
14 Railroad Facts, 1959 edition, statistics for 1958,  
15 and the percentage of revenues from passenger  
16 as compared to freight and passenger total revenues  
17 is 7.72 per cent, and according to the C.P.R.  
18 annual report, the passenger revenues as a  
19 percentage of passenger-freight is 8.25 per cent,  
20 and according to the Canadian National Railway  
21 annual report, passenger revenues are 7.81 per  
22 cent of revenues.

23 We were discussing at the break this  
24 matter of post or prior empty car movement, and  
25 I had referred to Exhibit 315, your exhibit 315  
26 in the docket 31503. I would also like to  
27 refer to your exhibit 710 in 31874 of the  
28 Southern Governors case, and page 6 of that  
29 exhibit you are discussing the methods used.

30 "The present cost study on the grain and grain  
products movements from the west to the south took  
into account the following adjustments to Rail  
Form A averages:-







1  
2  
3 1. The separation of Rail Form A unit costs  
4 by territories - western district, eastern district  
5 and southern region. (The territorial boundaries  
6 observed by carriers and gateways is described  
7 herein below).

8 2. The separation of the actual route mileages  
9 by individual parcels in the western district as  
10 follows:

11 (a) Through train vs. way train in each territory.  
12 In the eastern and southern districts, the  
13 territorial average way train mileages were applied  
14 per shipment originated or terminated based on the  
15 cost section statement No. 1-57, p.6. A direct  
16 assignment was made in the west.

17 (b) Country origin branch line miles vs. all other  
18 miles. The country origin branch line miles  
19 were further broken down between the solely related  
20 miles and the non-solely related miles.

21 3. The separation by type of car (boxcar costs  
22 applied) and by weight of load by commodities.

23 4. The application of actual empty return ratios  
24 for box cars in grain loading, from country  
25 origin in the west to first transit point in the  
26 west (or to territorial boundary if first transit  
27 point was in the east or south). The applicable  
28 territorial average boxcar empty return ratios  
29 were applied to the remaining mileages."





1  
2  
3 Now, I understand that the very structure  
4 of the railroading in the United States to the  
5 territorial lines is different, but I noted here  
6 you applied empty return ratios from country origin  
7 in the west to first transit point in the west, and  
8 I wondered whether this was a method or a comparable  
9 method utilized by Canadian railroads in computing  
10 their empty car miles ratios in Canada, or do the  
11 methods compare at all?

12 A. Well, both involved the prior empty tracing,  
13 and our problem was that in order to get the point  
14 of interchange you are quite liable to lose the  
15 car to a line where you had no records of their  
16 movement.

17 Q. From your word with Mr. Stenason and Mr.  
18 Bandeen on this matter, on empty car movements was  
19 any allowance made in the grain study which the  
20 railways have submitted to the commission for the  
21 fact that grain moving to British Columbia provides  
22 for the return of empty car movements from the  
23 west coast.

24 A. Well, they put the empty return ratios  
25 wherever they found them, and there is some reloading;





1  
2 I think some possibly 30 per cent of the cars made  
3 empty with grain at Vancouver are reloaded at  
4 Vancouver, and the remaining 70 per cent depart  
5 for loads. Some of them depart to end up with  
6 another grain loading at Fort William; I think  
7 about 16 per cent is the extent to which they are  
8 reloaded, and that is recognized.

9 Q. For example, if a car passes Fort William  
10 or Armstrong empty, from the moment, as I understand  
11 it, it passes Fort William or Armstrong the empty  
12 movement is allocated to grain. This is westbound.  
13 Is that correct?

14 A. Yes, if it was on its way to pick up  
15 a load of grain in the study.

16 Q. Say it goes to Calgary and it picks up a  
17 load of grain and then goes to Vancouver and it  
18 empties it at Vancouver and takes on a load of lumber  
19 or fruit and vegetables and starts back, what  
20 proportion of the empty car movement from Fort  
21 William to Calgary is allocated to fruit and  
22 vegetables or to lumber? As I understand it, none  
23 of it is allocated to lumber.

24 A. No, in that case there would be none  
25 allocated.

26 COMMISSIONER GOBEIL: Dr. Edwards, Mr. Mauro  
27 asked you - his question was, I think, that as  
28 soon as an empty car passed Fort William it is  
29 allocated to grain, and you said it was allocated  
30 to grain inasmuch as it was going to be used to  
get some grain.

THE WITNESS: Yes.

COMMISSIONER GOBEIL: Then it is not all empty







1  
2 cars.

3 THE WITNESS: No. The tracing of the empties  
4 started with the outbound load of grain from the  
5 country elevator, grain moving at statutory rates.  
6 Those cars were sampled, so any car we speak of  
7 was a car that was actually used in the study to  
8 handle grain. Now, some of those cars - I don't  
9 know; they can check me - some eight per cent or  
10 ten per cent or so may have come from eastern  
11 Canada; if they came from Armstrong they probably  
12 came from eastern Canada, and we took only the  
13 mileage from Armstrong or Fort William. But to  
14 answer your point, we only put up the cars that  
15 were loaded with grain, and of the 100 per cent  
16 that were loaded out, let's say eight per cent  
17 or ten per cent came from Toronto or Montreal, we  
18 only counted empties from that point; others  
19 came from Fort William, others came from Calgary,  
20 Saskatoon, Regina, and some came back from  
21 Vancouver. Where they came from is all spelled  
22 out in one - well, we can tell you where these  
23 empties all came from.

24 COMMISSIONER BALCH: Might I ask a question,  
25 Mr. Mauro, to qualify it in my mind?

26 We will suppose, Mr. Edwards, that you  
27 have some empty cars leaving Toronto and they are  
28 going west, when they arrive at Armstrong and Fort  
29 William, if they are loaded with grain at Calgary  
30 you charge them up as empties going to the grain?

THE WITNESS: Yes.

COMMISSIONER BALCH: Supposing they pass  
through Calgary and went on and loaded lumber, you





1  
2 wouldn't count them as empties?

3 THE WITNESS: No. In tracing these cars we  
4 started at the country elevator with a car loaded  
5 with grain and then we looked back and saw where  
6 it came from.

7 MR. MAURO Q: That is exactly the point I was  
8 trying to bring out in this illustration. The  
9 car leaves Fort William empty and it goes to Calgary  
10 and picks up grain: you charge all of the prior  
11 empty movement from Fort William to Calgary  
12 against grain?

13 A. If we had - I am informed we had a  
14 negligible movement of empties from Fort William  
15 to Calgary, as Alberta receives the bulk of these  
16 cars from British Columbia.

17 Q. Take one from British Columbia to Calgary.  
18 It goes empty to Calgary and picks up a load of  
19 grain at Calgary. The prior empty movement of  
20 that car is charged to grain?

21 A. Yes.

22 Q. And then it takes its grain to Vancouver  
23 and picks up a load of lumber and starts east with  
24 it. What empty movement is charged to lumber?

25 A. There is no empty movement charged to  
26 lumber on that specific movement if it is reloaded.

27 Q. If there wasn't the grain movement there  
28 would have to be an additional charge affixed to  
29 either the import commodities coming in by water  
30 to Vancouver and needing boxcars, lumber and  
fruit and vegetables, which would need boxcars  
from eastern Canada in order to convey their  
products back into the market in eastern Canada. I







1  
2 asked Mr. Stenason whether they moved the boxcars  
3 out to Vancouver by boat and then filled the boxcars  
4 at Vancouver, and I think it was accepted that that  
5 wasn't feasible. So we assume that they have  
6 to get out there, that an awful lot of them carry  
7 grain, and I suggest that if you charge grain with  
8 the prior empty movement there should be some  
9 allowance made for the fact that the movement of  
10 grain permits you to have the supply of empty  
11 boxcars at Vancouver for movement of British Columbia  
12 commodities to the central Canadian markets?

13 A. Well, there are a great many boxcars, I  
14 think 20,000 or 30,000 in 1958, which moved out  
15 of Vancouver eastbound which had no loads.

16 Q. You also had many cars that picked up  
17 something?

18 A. Yes. There is a problem of having the  
19 cars you want at the time and in the place you want.

20 Q. So that management has to work with the  
21 demands of its shippers, and some of these costs  
22 are costs created by management decision, problems  
23 of the railways?

24 A. They are problems of operating the railroad  
25 in getting the most efficient use of their  
26 equipment.

27 Q. A boxcar leaves Winnipeg loaded for  
28 movement to Halifax, passes the Armstrong and Fort  
29 William cutoff point and is moving not under the  
30 Crow rates but is going to move into Halifax with  
grain for export, and it picks up goods that  
have been brought in by boat into the ports of  
Halifax and Saint John for shipment to the central





1  
2 Canadian markets. Are these exported or imported  
3 goods charged with any of this empty car movement  
4 that would otherwise be chargeable to them if  
5 there wasn't the movement of grain into Halifax and  
6 Saint John?

7 A. Well, let me see if I understand your  
8 question. Maybe you had better repeat it. I  
9 was trying to follow you.

10 Q. A car goes empty to Winnipeg and picks up  
11 a load of grain, moves all the way back to Halifax  
12 with grain. The empty car movement from the time  
13 it left Armstrong and Fort William to pick up  
14 the grain is allocated to grain; is that correct?

15 A. Well, if this is non-statutory grain it  
16 wouldn't be allocated to grain.  
17  
18  
19  
20  
21  
22  
23  
24  
25  
26  
27  
28  
29  
30





1 Q. Now, between Winnipeg and Fort William it  
2 is statutory?

3 A. That is right.

4 Q. Statutory rates apply? Once it goes to  
5 Fort William or Armstrong it is on the charitable  
6 nature of the C.P.R. or C.N.R. that they carry them  
7 at these low rates?

8 A. I did not get your statement.

9 Q. But it charges to grain an empty move-  
10 ment from Winnipeg to Fort William to pick up a load of  
11 grain; is that correct?

12 A. That is right.

13 Q. And then that boxcar moves all the way  
14 back to Halifax, gets its load of grain and picks up  
15 a load of any commodity exported from Europe for  
16 delivery to Toronto and Montreal. None of the empty  
17 movement is chargeable to the imported commodity that  
18 is picked up at Saint John or Halifax?

19 A. Well, there is a heavy movement of  
20 freight train cars empty from eastern Canada out to  
21 Armstrong. It is not included in the study and must  
22 be charged to something that is going east, and that  
23 would get a share of it.

24 Q. What is it charged to, Dr. Edwards?

25 A. If we were making a study east, making  
26 a charge to the traffic, we were costing out, if we  
27 were costing out other traffic in the east.

28 Q. But it is not prior to any movement  
29 so I am interested in knowing what you would charge it  
30 to?







1  
2 A. You are speaking of illustrations here  
3 that are extreme. You are taking cars that are re-  
4 loaded, almost all of these cars are not reloaded,  
5 so you are taking illustrations where there are no  
6 subsequent movements. I think these things will  
7 average out.

8 Q. Well, it would be interesting, then,  
9 Dr. Edwards, if you have any information, to let us have  
10 the number of cars moving westbound, out of Saint  
11 John and Halifax unloaded, number of cars moving  
12 eastbound out of Vancouver unloaded; and we will com-  
13 pare those with the movement of grain into those ports  
14 and see whether there has been any kind of allowance  
15 made for the fact that grain provides empty cars at  
16 export points to bring back loads of traffic.

17 COMMISSIONER BALCH: I am thinking of the  
18 practical side. They usually order so many grain  
19 cars. Now, for instance, they might want at Calgary,  
20 they might take up twenty or thirty empty grain cars  
21 to load east. Now, I can recognize the problem, you  
22 need those empty cars. Supposing the car goes empty  
23 from Armstrong and it was not intended to be grain in  
24 the first place: just the fact that it got to Calgary  
25 and it was fit for grain, so they loaded grain.

26 MR. MAURO: That is right.

27 COMMISSIONER BALCH: There is a different  
28 angle again, I think, where they have about twenty cars  
29 and where the car just goes ---

30 MR. MAURO: That is my point, exactly, Mr.





1 Commissioner. If these cars coming right to Moncton,  
2 New Brunswick, empty as soon as they pass Fort  
3 William or Armstrong chargeable to grain, if they  
4 subsequently load grain, on the movement from Moncton  
5 to Fort William who was charged with that prior empty  
6 movement? Would you refer to page 2674:  
7

8 "What about the milling in transit switch?

9 "A. On the grain milled in transit, the switch  
10 movements of the inbound grain and the  
11 outbound grain products were followed to  
12 and from the individual elevators involved  
13 at milling points.

14 "The comprehensive switching studies  
15 provided the switch engine minutes applicable  
16 to each element or group of elements of  
17 switching service performed on the cars of  
18 grain or grain products at every terminal  
19 throughout western Canada. From the count  
20 of terminal car handlings the total engine  
21 minutes of work performed on the grain and  
22 grain products cars were readily and accurate-  
23 ly determined by multiplying the cars so  
24 handled at each terminal by the appropriate  
25 minutes for the work performed by each  
26 element of switching service required by the  
27 study traffic."

28 Dr. Edwards, has the present study in your opinion  
29 properly reflected the shorter switching time brought  
30 about by larger cuts of grain cars?







1  
2 A. I cannot answer that question. I am  
3 familiar with the article in the Railway Age. In all  
4 the experience I have had in switching I have never run  
5 cost by size of cut.

6 I think it is something entirely new. Whether it  
7 effects economies or not as indicated, I could not tell  
8 you.

9 Q. So you have no opinion on Wright's  
10 formula as to whether or not it is an accurate analysis  
11 of reduced costs by increased cuts in boxcars?

12 A. No, sir.

13 Q. And Meyer's statement at page 313 of  
14 the now almost public text in this court room, where  
15 he states:

16 "Apparently the number of cars does not  
17 influence the amount of time consumed in  
18 switching yard operation; the coefficient  
19 for the number of cars is both an inadmissible  
20 negative and statistically insignificant. This  
21 is not surprising since it conforms with other  
22 knowledge about the character of switching  
23 operations. In short, the number of cuts is  
24 unquestionably the dominant variable in flat  
25 switching classification."

26 Do you agree with Mr. Meyer, Stenason, Zwick and Peck?

27 A. I rest where I stood before. I would  
28 have to look into that.

29 Q. Perhaps you could give us an opinion on  
30 something that you do have something to do with, and I





1 refer to your statement before the Railroad Commission,  
2 Docket No. 773, "In re increased freight rates within  
3 the Commonwealth of Kentucky -- verified statement of  
4 Ford K. Edwards on behalf of the Kentucky Utilities and  
5 the Kentucky Coal Industry." I quote from page 18,  
6 System Average Costs:  
7

8 "These costs do reflect important trans-  
9 portation characteristics such as the length of  
10 the haul, the weight of the load and the type  
11 of equipment in which the traffic is carried.  
12 This latter refers particularly to the tare  
13 weight and empty return ratio."

14 This is the part I would like you to listen to, Dr.  
15 Edwards:

16 "But system average costs do not correctly  
17 reflect operating conditions peculiar to coal.  
18 The operating characteristics surrounding the  
19 movement of coal differ greatly from those  
20 applying to traffic generally. This situation  
21 is recognized by the Cost Section which attempts  
22 to offset it in part by averaging the system  
23 average cost figures of the Pocahontas region  
24 with those of the regions in which the coal moves.

25 In my opinion this adjustment is wholly  
26 inadequate for coal. In particular it fails  
27 to reflect the extremely low switching costs at  
28 the mines, the low switching costs at destina-  
29 tion where large volume consumers take deliveries  
30 of coal in large blocks, the low cost of





1 effecting interchanges between carriers in  
2 large cuts of cars, the simplicity of coal  
3 car interchanges when made at outlying points,  
4 and finally the weight of the trainloads."

5 And at page 19 under Origin Switching:

6 "Under the system averages applied by  
7 the Cost Section the minutes used for origin  
8 and destination switching would have been based  
9 on the regional averages for all traffic.  
10 These figures ranged from 19.5 switch engine  
11 minutes per loaded car in the Pocahontas  
12 Region to 30.5 minutes in the Eastern District. "

13 THE CHAIRMAN: Let him see it.

14 MR. MAURO: Q. Fine. That was an accurate  
15 statement of your findings as to the reduced cost of  
16 switching coal because coal was switched in larger cuts?  
17

18 A. Yes, but we are talking about something  
19 entirely different from what was talked about there.  
20 Now, we here were talking about the use of system  
21 average, territorial average figures of some twenty  
22 or thirty minutes for performing the full terminal  
23 operation, we will say, in official -- certainly in  
24 the various territories -- which included classification  
25 work and transfer work and switching the industry.

26 Now, our concern was in the coal that we  
27 did not have switching studies performed at the mines  
28 and we did not have, except what the utilities could give  
29 us, switching time at the utility.

30 But in this grain case they did not rely upon







1 system average, but C.P.R., C.N.R. switching cost  
2 figures: they engaged in one of the most extensive  
3 series of switching studies that I had ever come across,  
4 so that these things I talk about here ---

5 MR. SINCLAIR: Where is "here", in Kentucky?

6 THE WITNESS: Talked about in this case,  
7 involving Kentucky Utilities, were met in the grain  
8 case by the studies.

9 That brings us down to this last question  
10 you bring up -- I presume you are talking about flat  
11 switching where the engine takes hold of one car, two  
12 cars or three cars at a time -- switching  
13 grain versus the switching of other traffic -- a very,  
14 very narrow area of the total switching study. Otherwise  
15 the actual size of the cuts in the transfer  
16 movements, from the classification yards out to the  
17 industrial site and to the mills and the size of the cuts  
18 at the mills or country elevators as handled, were  
19 figures actually studied, and those are the things that  
20 I was concerned with there, and they were met in the  
21 grain case.

22 Q. Now, Dr. Edwards, I think we can just  
23 simplify this to a considerable extent. We were dis-  
24 cussing whether or not you had had any experience with  
25 the fact that switching costs were reduced when a com-  
26 modity could be switched in large cuts. I refer you to  
27 Wright's formula and he says that they can be and very  
28 markedly. I referred you to Mr. Meyers who says that  
29 it seems to be the dominant factor. Then I referred  
30





1 you to your study in the Kentucky case and it would  
2 appear to mean that it was your clear and defined  
3 analysis of observed data, with the low switching costs  
4 at destination where large volume consumers take de-  
5 livery of coal in large blocks and the switching of  
6 coal, that this was a characteristic that you also  
7 observed. So I asked you whether it has been your  
8 experience, particularly in coal which is a heavy  
9 loading commodity and bulk moving commodity that  
10 switching costs had in fact declined per unit where  
11 cars are cut in blocks?

12  
13 A. My answer to that, that to the extent  
14 the switching on the grain, except in the flat switching  
15 itself, the size of the cuts was measured and the grain  
16 was handled in two car cuts, they are not in  
17 fifty car cuts, this is reflected in the study in the  
18 transfer movements and the switching of the mills,  
19 and that is what I was talking about here.

20 Q. So that tell me where, from your long  
21 experience, particularly as a research director in the  
22 coal business, you found and have argued in courts on  
23 behalf of the coal industry that because coal can be  
24 switched in larger cuts, switching costs are thereby  
25 reduced?

26 MR. SINCLAIR: Mr.Chairman, I must say I wish  
27 my friend would say what kind of switching he is refer-  
28 ring to. Is he referring to industry switching or is  
29 he referring to classification switching, because it  
30 is obvious from the witness' answers that they are at







1 cross purposes in some degree because the witness has  
2 made clear in his answers that it was industry switching  
3 he was talking about in the Kentucky case, and the  
4 fact that they did not publish the time studies there.  
5 He then has said that in this same case that was taken  
6 care of. This industry switching they then traced  
7 individually.  
8

9 THE CHAIRMAN: Mr. Mauro I think will clear  
10 it.

11 MR. SINCLAIR: If he wants to talk about classifi-  
12 cation switching, that is one thing; if he wants to talk  
13 about industry or local switching that is another.

14 THE CHAIRMAN: I suppose he means as to  
15 switching necessary to get the grain from the west to  
16 Fort William.

17 MR. MAURO: We are talking about switching  
18 generally, and I know that Dr. Edwards and I know  
19 exactly what we are talking about -- the same thing that  
20 we discussed with Mr. Stenason, the same thing that  
21 Commissioner Anscomb was discussing with Mr. Stenason.  
22 In my cross-examination we tied it up by saying, I  
23 asked the question at page 11707:

24 "I certainly want to apologize to the  
25 Commission, but that is exactly the statement I  
26 started out with by saying that he took the  
27 total time and divided it by the number of  
28 cars."

29 My question is, do these loading times on grain work to  
30 the same average switching minutes as other cars in this?





1 A. Yes, that is right in classification.

2 MR. SINCLAIR: That is the point.

3 MR. MAURO: Q. All right, Dr. Edwards, we  
4 are going to break it between industry switching and  
5 classification switching. Where the grain can be  
6 classified in multiple cuts, has it been your observed  
7 data that you have personally observed in your work with  
8 the coal industry, that switching in multiple cuts, be  
9 it for classification or for industry ---

10 MR. SINCLAIR: No, Mr. Chairman; I must object.  
11 If we are going to discuss switching I think we must dis-  
12 cuss it intelligently by separating them out.

13 MR. MAURO: All right, we will take it one  
14 at a time, Dr. Edwards. If you can classify cars in  
15 multiple cuts, does this reduce the total switching  
16 time per unit? Has that been your experience?  
17 Without reference to this grain study, has that  
18 been your experience?  
19  
20  
21  
22

23 (Page 12668 follows)  
24  
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30





1  
2 A. Well, I am trying to think back. I  
3 spent a day in one of the largest coal yards in the  
4 south this spring. I am trying to think how the  
5 cars came over. They were flat switched and kicked  
6 down, but the problem there was -- I happened to think  
7 of this with a little shock -- that they all came down  
8 singly and the cars were being kicked into their track.  
9 So that you have the problem of the circumstances,  
10 trying to visualize it, because in all the studies  
11 I have had connection with we never stopped for the  
12 individual traffic to tag in the big classification  
13 yards and determine whether it was always in connection  
14 with one, two or three cars. Sometimes you were  
15 reaching down to pick out a bad order car and sometimes  
16 they were already blocked and you had some large blocks  
17 merely to be pushed through. At other times, at a  
18 junction where the cars go various ways if they haven't  
19 been preclassified there may be small break-ups --  
20 one, two and three cars. If they have been pre-  
21 classified somewhere they may roll through in a big  
22 block. This fact isn't always tied to the class of  
23 the traffic; it is tied to the ultimate destination of  
24 the car; so I think it is hard to give an answer on  
25 that score.

26 COMMISSIONER BALCH: Would you mind if I  
27 asked you a question, Mr. Mauro? At the end of your  
28 question you said "total switching time." What do  
29 you include in that total? You mention classification  
30 and . . .







1  
2 MR. MAURO: It is the sort of thing that  
3 you and I, Mr. Balch, discussed with Mr. Stenason,  
4 that they always use this nice little round figure  
5 and apply it on a per unit basis, and I am suggesting  
6 that this is completely contrary to all of the  
7 written testimony, and, I suggest, the observed data  
8 that Dr. Edwards has seen. In a study such as grain these  
9 cars are both classified and industrially switched  
10 in large cuts.

11 I am saying that it is not reflected in  
12 the present unit average method used here.

13 COMMISSIONER BALCH: I was wondering if  
14 Mr. Edwards got that.

15 MR. MAURO: Q. You told us that you haven't  
16 made a study of the classification switching in the  
17 United States and it is difficult for you to give an  
18 opinion on it. Apparently Wright and Meyer had made  
19 some study on this switching problem and concluded  
20 that it was a dominant factor in the coefficients  
21 that were discovered; but, regardless of that, let us  
22 move to industrial switching. What is your personal,  
23 observed experience of industrial switching? Would  
24 the switching in larger cuts reduce the unit -- per  
25 unit -- time consumed in switching?

26 A. Oh! Excuse my expression. I suppose  
27 you would say, in industrial switching that, other  
28 things being equal -- the accessibility of the  
29 industry, the requirements of pulling out cars from the  
30 industry that are not ready to go, taking out cars that





1 have to go and pushing others back and putting your  
2 empties on, and if you had to make one or two transfers  
3 -- I have been through a great many studies that I have  
4 made, or worked on, but so far as industrial switching  
5 is concerned, once you get out of classification,  
6 whatever the size of the cut was, in the handling of  
7 the grain at Winnipeg, Moose Jaw, or some small point ---

8 Q. I will be hurt if you classify Winnipeg  
9 as "some small point"!

10 A. I said "or some small point" -- the time  
11 studies were made on the ground, and whatever the effect  
12 of the size of the cut was it would be picked up in  
13 the time studies, be it little or be it big.

14 Q. But you heard Mr. Stenason tell me that  
15 so far as his studies were concerned the switching  
16 in larger cuts had no benefit; that, in practice, he  
17 said that . . .

18 MR. SINCLAIR: Mr. Chairman and members of  
19 the Commission, with respect, that is not what Mr.  
20 Steanson said. Mr. Stenason said in respect to in-  
21 dustrial switching they were traced, in this matter,  
22 on the basis of the mills that were actually moving.

23 That was made clear two or three times because  
24 my friend was labouring under this misapprehension when  
25 he was cross-examining Mr Stenason. The record shows  
26 that Mr. Stenason said to him "That is not so with  
27 regard to industrial switching."

28 MR. MAURO: We are discussing industrial  
29 switching now.  
30







1  
2 MR. SINCLAIR: You said that Mr. Stenason  
3 said . . . and I think that had to be put right.

4 MR. MAURO: Mr. Chairman, I think that my  
5 learned friend would certainly assist the Commission  
6 if, perhaps, he would pay a little closer attention  
7 to the cross-examination.

8 THE CHAIRMAN: I think Mr. Stenason did not  
9 accept the Wright formula.

10 MR. MAURO: There is no question about that.  
11 I am discussing industrial switching. We are finished  
12 with classification; and certainly Mr. Stenason dis-  
13 agreed with Mr. Wright in the field of industrial  
14 switching.

15 MR. SINCLAIR: My point is that he said that  
16 Mr. Stenason said that larger cuts didn't have anything  
17 to do with the time involved in the industrial switching  
18 of grain. The point is that Mr. Stenason's evidence  
19 was that these were traced out to the actual mill.  
20 That is the evidence which is in the record. The  
21 witness now says -- and he has said it four or five  
22 times -- whatever is involved in the actual movement of  
23 the size of cut is ---

24 MR. MAURO: Is this argument?

25 MR. SINCLAIR: I am objecting to the way  
26 the witness was asked the question.

27 With all due respect, I wish you would let me  
28 finish. I am objecting to counsel putting to the  
29 witness what he said was in the record, which is not in  
30 the record, and just stating wrongly the evidence given





1 in this connection by Mr. Stenason.

2 MR. MAURO: We can find it on the record.

3 MR. SINCLAIR: I don't think the witness  
4 should have put to him what Stenason said when it is  
5 not what Stenason said.  
6

7 THE CHAIRMAN: But I think the witness was  
8 here when Mr. Stenason was cross-examined.

9 MR. MAURO: Q. So that I have this clearly  
10 from the cost study, did the C.P.R. and the C.N.R.  
11 find that, in effect, the larger cuts of grain cars  
12 resulted in lower switching costs either industrially  
13 or in classification? Did they find that? We will  
14 get it from you.

15 A. At this point I would like to make it  
16 clear that in industrial switching there are all kinds  
17 of circumstances, and what you are talking about here --  
18 there are always transfers -- for example, transfers  
19 across town -- and there are probably mills easy of  
20 access and mills difficult to get at; but you are  
21 talking about under normal circumstances -- are the  
22 minutes less as you handle more cars?

23 Q. I am simply trying to have the benefit  
24 of your long experience -- coupled to the statement  
25 of Meyer and Wright -- as to whether or not in the  
26 studies before the Commission there is reflected the  
27 shortest switching time per unit that would result from  
28 larger cuts?

29 A. For a given switching element. You  
30 can't mix switching elements, of course.





1  
2 COMMISSIONER BALCH: I want to say this, that  
3 the classification switching and industrial switching  
4 are two different things entirely. You get that?

5 MR. MAURO: Yes, I certainly do.

6 COMMISSIONER BALCH: And when you say a  
7 bigger cut it is true that if you push into a siding  
8 eight or nine cars there is nothing to it, but as Mr.  
9 Edwards points out, suppose there is a certain amount  
10 -- each case would be different. You have a certain  
11 amount of switching on this cut of cars.

12 MR. MAURO: He said clearly that he hadn't  
13 made any detailed study of it. It is industrial  
14 switching that we are now dealing with, or trying to  
15 show the material we have from Wright and Meyer and  
16 tie it up to his personal experience and compare it with  
17 what Mr. Stenason has told us his findings were.

18 Q. Yes, doctor?

19 A. Well, I was asked to inform you that we  
20 gave you the actual time -- whatever it was; but,  
21 actually, of course, you have more or less for a  
22 given element.

23 I am informed that at Winnipeg a check was  
24 made on the size of cuts and classification and there  
25 wasn't a great difference.

26 Q. Let us follow that up, because my learned  
27 friend is continually pointing out that I don't under-  
28 stand this thing: You have said that at Winnipeg they  
29 made an actual test of the classification of major cuts  
30 and they found that there was no material difference?







1 Is that correct?

2 A. Yes, on the Canadian Pacific -- the  
3 time per car.

4 Q. That was clear in my mind before my  
5 learned friend mentioned it.

6 Now, let us move on to industrial switching.  
7 Did the Canadian Pacific make a study of the industrial  
8 switching of larger cuts?

9 A. It made studies of industrial switching  
10 in all these terminal studies. Some of the plants were  
11 close in and some of them were far out and some were  
12 easy to serve and some more difficult to serve. I  
13 have seen studies where on a block of coal, being de-  
14 livered to a utility on the outskirts, it might have  
15 been even served by a way train; on the other hand,  
16 there have been utilities located in large centres  
17 where they had to go to one or two yards and a couple of  
18 classifications, and even although the block might be  
19 large the minutes could be quite large. You have the  
20 complexity of the plant location.

21 Q. But in the Kentucky case, in that par-  
22 ticular statement of yours, you have stated:

23 "In my opinion this adjustment is wholly  
24 inadequate for coal. In particular it fails to  
25 reflect the extremely low switching costs at the  
26 mines, the low switching costs at destination  
27 where large volume consumers take deliveries  
28 of coal in large blocks . . ."

29 As you know, elevators, if we can consider them from the  
30





1 point of view of destination, take a fairly large cut  
2 of cars, do they -- or was that part of your study?

3 A. In this case here this related to one or  
4 two large plants of the Kentucky Utility far from any  
5 town and served by way trains. The way train pulled  
6 up to the lead and had its cars on the head end and  
7 may have delivered 30 cars to a plant a quarter of a  
8 mile from the right-of-way, spotted them and moved  
9 out the empties and went its way. That would be, to  
10 use the time of the official territory of 30 minutes  
11 per car -- that would be wholly inapplicable to this  
12 type of switching; and this case here, of course,  
13 involved -- this Kentucky Utility case -- the switching  
14 of extremely large plants of the Kentucky Utility  
15 with very heavy coal deliveries two or three times a  
16 week.  
17

18 Q. You found in the very large utilities where  
19 they put in, as you mention, 30 cars and pulled out  
20 empties -- and you mentioned a quarter of a mile -- that  
21 it had a marked effect, so much so that you asked the  
22 ICC to take that into consideration ---

23 A. That was on the rate to this plant, and we  
24 made arrangements with the plant superintendent to  
25 stand out and time the train coming up to the lead  
26 until it pulled away, and we got the time. There are  
27 men standing there who check the time the engine  
28 arrives and departs, and they divide the time by the  
29 cars, the same as we did in the Kentucky Utility.

30 Q. So in the Kentucky Utility case wasn't that







1 large cut going into the large utilities reflected  
2 in lower cost of switching?

3 A. Well, yes.

4 Q. I refer you to page 2676 of volume 19.  
5 You were asked the question: "Any further comment  
6 on load studies?" And your answer was: "Both studies  
7 distribute freight car repair expenses between use  
8 and time at 70 per cent versus 30 per cent respectively.  
9 The time portion of the expenses assigned to the  
10 study traffic includes an allowance for inactive car  
11 days. Both railways follow widely recognized pro-  
12 cedures of distributing freight train car expenses  
13 on a combination mileage and time basis which I  
14 have consistently used in railway costing."  
15  
16  
17  
18  
19

20 (Page 12680 follows)  
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1  
2 This particular expense item referred to there  
3 has been allocated on a comparable basis with  
4 that utilized by the ICC and is the method you  
5 consistently used in railway costing: I wonder  
6 about some of the other methods of allocation  
7 adopted by the Canadian Pacific and the Canadian  
8 National in the studies: are they also identical  
9 with the ICC procedures and do they form the  
10 methods which you have consistently used in the costing  
11 of rail service? Let us take, for example, re  
12 communications rail, exhibit 68 of the Canadian  
13 Pacific: I wonder if you could tell us how you  
14 usually apportion communications rail in your  
15 regular costing practices, or the method utilized  
16 by the Interstate Commerce Commission? As I  
17 understand it in my cross-examination of Mr.  
18 Stenason, we developed the fact that they had  
19 charged 95 per cent of this item to freight  
20 traffic.

21 MR. SINCLAIR: I think the witness is  
22 looking for the classification of account number.

23 MR. MAURO: We are on communications rail.  
24 Perhaps we could take a break now, Mr. Chairman.

25 THE CHAIRMAN: Yes, we will take a recess now.

26 ---Short recess.

27 THE CHAIRMAN: Will you repeat your question,  
28 Mr. Mauro.

29 MR. MAURO Q: We were discussing, Dr. Edwards,  
30 this matter of communications rail which appears  
on exhibit 68, and I wondered whether this method  
was the method utilized by the I. C. C.





1  
2  
3 in allocating this particular expense item, and  
4 whether you have used this system which results in  
5 an apportionment of 95 per cent of communications  
6 rail cost attached to freight traffic?

7 A. The methods followed treated as a general  
8 overhead and allocated over other expenses, and  
9 I have used that method, and the ICC rail form  
A uses a comparable method.

10 Q. The rail form A uses a comparable method?

11 A. It is distributed as part of the general  
12 overhead.

13 Q. And it results in this 95 per cent  
14 allocation to freight?

15 A. The rail form A ICC basis allocates the  
16 freight portion of that. I don't know what the  
17 freight portion is without going to a carrier's  
account and seeing what it is.

18 Q. And you have used the same method in  
19 your costing practices?

20 A. Yes.

21 Q. Have you ever had an instance, in your  
22 recollection, where 95 per cent rail communication A  
23 on any representative Class I railroad comparable  
24 to the C.P.R. resulted in a 95 per cent allocation  
to freight traffic of communications?

25 A. I couldn't answer that because I never  
26 stopped to work out the percentages.

27 Q. Regarding equipment maintenance on exhibit  
28 64: when you have dealt with this matter have  
29 you treated it as 100 per cent variable in your  
studies?

30 A. I have treated equipment maintenance as







1  
2  
3 100 per cent variable except when I have collapsed  
4 all the accounts, averaged them out and used a  
5 flat factor of 80 per cent, but in that factor  
6 of 80 per cent equipment is taken in at 100 per  
7 cent and maintenance-of-way may be at 50 per cent  
or some such figure.

8 Q. Does that reflect the ICC method --  
9 100 per cent variable under the ICC method?

10 A. When separations are made. When you  
11 speak of the ICC method, the ICC has various  
12 formulas. They have the rail form A, which you  
13 heard about, and they used this (indicating) volume,  
and rail form B and C.

14 Q. I am speaking about rail form A, adjusted,  
15 which you have referred to in a number of recent  
16 cases. That really takes into account the  
17 refinements of B and C, and I am particularly  
18 interested in whether or not the Interstate  
19 Commerce Commission cost section has found and  
20 treated maintenance of equipment accounts as 100  
per cent variable?

21 A. Yes, they have found them 100 per cent  
22 variable. That is set out in Senate Document 63.

23 Q. I haven't got that document, but I  
24 have the document "Explanation of rail cost finding  
25 procedures".

26 A. This is Senate Document 63, and it is  
27 set up by the government accounts.

28 Q. I am referring to the Interstate Commerce  
29 Commission statement No 4-54 at page 31, table  
30 one per cent by which various expense groups





1  
2 freight are variable with gross ton miles. 1939  
3 to 1956 -- and item 7, total maintenance of  
4 equipment, variability, 1939 to 1944, 64 per cent;  
5 1939 to 1945, 78 per cent; 1940 to 1946, 86 per  
6 cent; simple average 77 per cent. That was  
7 for the United States totals, and then they break  
8 them down to eastern, southern and western  
9 districts, and I wonder whether that degree of  
10 variability -- it ranges from 86 to 64, and the  
11 simple average is 77 per cent for equipment  
12 maintenance -- whether that reflects your  
13 experience when you were with the cost section of the  
14 Interstate Commerce Commission, and whether or  
15 not you follow procedures that reflect variability  
16 something less than 100 per cent on equipment  
17 maintenance?

18 A. When I am not grouping the accounts, such  
19 as rail form A was a tremendous shortcut without  
20 having to go after percent variabilities, and served  
21 a vast number of purposes, with the minimum amount  
22 of effort. We used the flat 80. When you depart  
23 from the averaging process, I have always used  
24 100 per cent. Where were you reading from on page  
25 31?

26 Q. Item 7, listed No. 50, freight locomotive  
27 and freight train car repairs and depreciation.  
28 No. 6 is freight locomotive and freight car repairs.  
29 No. 7 is total maintenance.

30 A. Seven is the one you were reading?







1  
2 Q. Yes?

3 A. And that includes the maintenance shops  
4 and the superintendence and injuries, and that  
5 isn't only the locomotive repairs directly.

6 Q. It is maintenace of equipment.

7 A. Well, it is the total accounts, including  
8 the overheads in the accounts.

9 Q. Is it similar, Dr. Edwards, to equipment  
10 maintenance, superintendence and overhead as  
11 stated in exhibit 64 of the C.P.R., accounts  
12 301 and 2 and accounts 341 to 347, inclusive,  
13 of the American classification of accounts? Are  
14 we speaking of comparable items, Dr. Edwards,  
15 because if we are not, then --

16 A. No. We have a problem here. We haven't  
17 been talking about comparable items. I misunderstood.  
18 I thought you were talking about locomotive and  
19 freight train cars, but now you are switching  
20 to the entire maintenance of equipment accounts,  
21 and some of those items in there are less than  
22 100 per cent variable. So, as a rule, I usually  
23 think of the total accounts of maintenance  
24 equipment as being a little less than 100 per  
25 cent variable. I was talking about the freight  
26 train car repairs and the depreciation and  
27 locomotive repairs. Those items I used as 100  
28 per cent.

29 Q. Could you tell us in regards to exhibit  
30 64, when you group the accounts equipment  
31 maintenance, superintendence and overhead, what  
32 was the percentage variability which the Canadian  
33 Pacific found?





1  
2  
3 A. Well, one would have to go back and  
4 work that out and lay the results of the regression  
5 analysis against the sum total of your variable  
6 based on those co-efficients.

7 Q. Still dealing with the United States  
8 practices which you consistently used in costing,  
9 what is the constant proportion of passenger costs?  
10 Is the method used by the C.P.R. the same as that  
11 adopted by the ICC? As I understand it, as  
12 I read the documents, in the United States a portion  
13 of constant is allocated to passenger services,  
14 a portion of the system constant is allocated to  
15 passenger?

16 A. You are talking about the ICC classification  
17 of accounts, the accounting process, not the ICC  
18 costing.

19 Q. The method in determining these bases  
20 for subsequent rate-making in the cost data provided  
21 that part of the constant in the United States is,  
22 in fact, allocated to passenger, subsequently is  
23 apportioned, if passenger is a deficit traffic,  
24 to the revenue-bearing traffic, but initially a  
25 portion of the constant is applied and allocated  
26 to passenger?

27 A. Yes, the unit accounting system so provides.

28 Q. And I am quoting from docket 31874, your  
29 cross-examination in West Palm Beach, the question:

30 "Q. I now want to ask you something about  
31 the nature or characteristics of these deficits.

32 Let me take the passenger deficit first.  
33 Under the Commission's rules for the separation  
34 of freight and passenger expenses, a certain





1  
2  
3 part or portion of the common or overhead  
4 expense of operating a railroad is charged to  
5 the passenger service in addition to the  
6 expense directly assignable to that service,  
7 is it not?

8 A. Yes, sir.

9 Q. Did you use the Commission's formula for  
10 ascertaining the passenger deficit which you  
11 included in your study?

12 A. Yes, I used the treatment followed by the  
13 cost section itself which goes back to the  
14 freight-passenger separation.

15 Q. Do you know, Dr. Edwards, approximately what  
16 percentage of the total passenger expense under  
17 the Commission's rules, the apportioned part of  
18 the common expense usually is?

19 A. No, offhand I do not know.

20 Q. Well, it is easy to calculate it from the  
21 information contained in the Commission statistical  
22 information?

23 A. Yes, but I have not done it.

24 Q. Would you be willing to accept, subject  
25 to later confirmation or subject to later  
26 correction in the brief if you want to, that  
27 in the years 1956 and 1955 that apportioned  
28 part of the common expenses run just short  
29 of 25 per cent for each year?

30 A. I will certainly accept that figure but I  
31 would add this factor therein, that in the  
32 separations made for the cost purposes, as I try  
33 to bring back my memory to the Form A treatment,  
34 there are certain expenses in there such as







1  
2 diesel locomotive operation which some carriers  
3 may treat as common on the mileage basis which  
4 we shifted to the direct because of the inter-  
5 changeable use, and felt that that was truly  
6 a direct expense.

7 Q. I see.

8 A. So that tended to reduce it. But, however,  
9 we can go ahead on the premise of the 25 per  
10 cent factor.

11 Q. I am not trying to be absolutely accurate  
12 with you. I wanted to get the substance of it.

13 A. Yes, sir."

14 So in the United States, according to the  
15 rules of the ICC, somewhere in the neighbourhood  
16 of 25 per cent for the years Mr. Alldredge referred  
17 to was allocated, 25 per cent of constant costs  
18 was allocated to passenger services. Was that  
19 an accurate statement of the practice in the  
20 United States?

21 A. Well, I have a little trouble on that.  
22 The problem is, of course, that the accounting  
23 classifications there give no recognition to variable  
24 and constant, they don't even recognize those  
25 terms. These terms are terms in the cost section  
26 where they work with these studies. So the  
27 question is - the problem is that of reaching into  
28 the cost section, setting aside all constant  
29 costs and trying to visualize how many of them  
30 dollarwise ended up in the constant account that  
31 would be treated to passenger. Now, it is a very  
32 complicated question. I don't think you want to  
33 make it complicated.





1  
2  
3 Q. No. Do I understand this evidence and  
4 my reading of the ICC rules correctly that there is,  
5 in fact - this is the information I obtained in  
6 Washington - that there is, in fact, under the  
7 methods of the ICC costing methods an allocation  
8 made of a portion of the constant system expenses -  
9 it is around the ratio, I think, of 25 per cent or  
10 26 per cent - to passenger service initially.  
11 They do make an allocation of constant costs to  
12 passenger services.

13 A. Well, the accounting rules don't recognize  
14 or don't - there is no setting aside of constant  
15 costs as such in there. You may have those directly  
16 assigned and directly apportioned, but I don't  
17 know whether you are talking about the annual report  
18 form of accounts where you have the solely related  
19 to passenger and those related to passenger. Of  
20 course, your problem was what was I talking about,  
21 and I am trying to figure out what I was talking  
22 about.

23 Q. I am trying to find out the nature and  
24 characteristics of these deficits.

25 ... "Under the Commission's rules for the  
26 separation of freight and passenger expenses, a  
27 certain part or portion of the common or  
28 overhead expense of operating a railroad is  
29 charged to the passenger service in addition  
30 to the expense directly assignable to that  
31 service, is it not?

32 A. Yes, sir.

33 Q. Did you use the Commission's formula for  
34 ascertaining the passenger deficit which you







1  
2 included in your study?

3 A. Yes, I used the treatment followed by the  
4 cost section itself which goes back to the  
5 freight-passenger separation.

6 Q. Do you know, Dr. Edwards, approximately  
7 what percentage of the total passenger expense  
8 under the Commission's rules, the apportioned  
9 part of the common expense usually is?

10 A. No, offhand I do not know.

11 Q. Well, it is easy to calculate it from the  
12 information contained in the Commission  
13 statistical information?

14 A. Yes, but I have not done it.

15 Q. Would you be willing to accept, subject to  
16 later confirmation or subject to later  
17 correction in the brief if you want to, that  
18 in the years 1956 and 1955 that apportioned  
19 part of the common expenses run just short of  
20 25 per cent for each year?"

21 A. Are you talking about the constant or the  
22 deficit? What is your question?

23 Q. My question is that in the United States  
24 obviously there is an apportionment to passenger  
25 services of part of the constant costs, and my  
26 next question is obviously going to be: would you  
27 tell me what portion of the constant costs the  
28 Canadian Pacific and the Canadian National laid on  
29 to passenger services in their cost study that  
30 they have presented to this commission.

31 A. Well, before answering that I would like  
32 to check.

33 THE CHAIRMAN: Well, can we have the question





1  
2 now, Mr. Mauro.

3 MR. MAURO: I was just waiting for Dr. Edwards  
4 here.

5 Q. Do you know how the Canadian Pacific or  
6 the Canadian National apportioned any part of the  
7 system constant cost to passenger services?

8 A. No. I say the answer is that they did not.  
9 They set out the passenger - I want to get it clear  
10 here, my understanding of it on both railroads -  
11 they set out, endeavoured to set aside the passenger  
12 costs in their entirety, what they would avoid if  
13 they had no passenger services. The rest was --

14 Q. Treating it in another way, we can say they  
15 treated it as incremental traffic or on an  
16 avoidable cost basis. Is that a fair statement?

17 A. Yes, I think that is so in the context of it.  
18 They left out the entire passenger stations and did  
19 not leave any in, that would go to passenger.

20 Q. Is this the method utilized by the ICC in  
21 the United States?

22 A. Now, is this the method utilized by whom?  
23 of the cost section in their Form A's or - the ICC  
24 as such, of course, doesn't go into this problem.

25 Q. No, of course.

26 A. So the question is when you speak about what  
27 the ICC does.

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1 Q. Under the Commission's rules for the  
2 separation of trade and passenger expense, a certain  
3 part of the common or overhead expense of operating the  
4 railroad is charged to the passenger service; in addi-  
5 tion to the expenses directly assignable. Therefore  
6 under the ICC or Commission rules, there is a separation  
7 and an allocation of a portion of the system constant  
8 costs on passenger; that is correct, Dr. Edwards?  
9

10 A. Yes, there are some system costs in  
11 there. They for one purpose endeavour to be separate.  
12 The general accounts, the traffic, are all to be  
13 separated to the best of their ability. It may be  
14 called an apportionment in the annual report statistical  
15 form where it is not kept currently divided, but, yes,  
16 I am trying to think what comes to rest in the constant  
17 passenger portion.

18 THE CHAIRMAN: Well, what were you talking  
19 about, Dr. Edwards?

20 MR. MAURO: What I thought we were discussing,  
21 Mr. Chairman, was the fact that in the United States,  
22 pursuant to the Commission rules, there is allocated  
23 to passenger services a portion of the system expenses,  
24 and I think Dr. Edwards has said ---

25 THE WITNESS: There would be some in there.

26 MR. MAURO: Q. Yes, I mean I do not want  
27 you to say "some" to me, Dr. Edwards, because in the  
28 Southern Governors case you did not even stop for  
29 a moment with Mr. Alldredge, you said "Yes, sir", and  
30 he asks, "Did you use their formula?" And you said,







1 "Yes, sir." He said, "Do you know what they charge?"  
2 And you said, "I have not it calculated." He said,  
3 "Would you accept 25 per cent?" And you said, "I  
4 will certainly accept 25 per cent." So some of it  
5 certainly is in there, and they had to use some of the  
6 C.P.R. figures here in the allocation of constant on  
7 the basis of the variable costs, and I am looking at  
8 Exhibit 69 revised where they have listed the passenger  
9 variable expenses, \$86 million; and if you allocate  
10 a portion of the constant on the basis of the variable,  
11 that comes up coincidentally to somewhere around the 25  
12 per cent mark.

13  
14 A. Well, Mr. Mauro, I am not sure that my  
15 answer at that time would be responsive to this question.  
16 I am not trying to evade it. I am trying to think  
17 back to where I got the 25 per cent. If you go down  
18 to the passenger accounts, certainly all equipment is  
19 direct. Now, one of the problems was, there  
20 are two columns in the report  
21 apportioned to passenger and wholly related to passenger.  
22 The stations are solely passenger expenses, but some  
23 of the equipment which is used interchangeably gets  
24 into the apportionment column. So that I may have  
25 picked out that column as being the constant part, but  
26 that is not the constant part if it includes locomotives.  
27 They are grouping back and forth, moving back and  
28 forth.

29 Twenty-five per cent of the whole passenger  
30 being constant seems a sizeable amount. I am thinking





1 of it in the text that it is done here. Those  
2 apportionments of the overheads are made with full  
3 thought that, except for certain departments like  
4 executive departments, the responsibility of both, or  
5 legal department, most of those are separable; but for  
6 the purpose of convenience they may put them in  
7 directly as a short cut as apportioned to passenger,  
8 and really they ought to be solely related. So my  
9 problem, I am trying to visualize where all these  
10 constant costs (passenger) came from.

12 Q. But there was no doubt in your mind  
13 in 1958 in West Palm Beach, Florida, that in fact there  
14 is this apportionment of expenses and in fact I think  
15 it is pretty common knowledge that under the rules there  
16 is an apportionment of constant cost to passenger in  
17 the first instance, and then as soon as it is a deficit  
18 traffic it has to be made up over the other traffic.

19 A. Of course, for the purpose of picking  
20 up the deficit we simply take the grand total.

21 Q. Sure.

22 A. Whatever it was on passenger, subtracted  
23 revenue, and the rest was deficit.

24 Q. But the fact that passenger service was  
25 a deficit traffic did not stop the ICC from allocating  
26 under their rules apportionment of the constant  
27 expense, the constant system expense, to the  
28 service in the first instance?

29 A. There is some in there.

30 Q. And the passenger service in Canada, I







1 understand, has had a deficit. You have been working  
2 pretty closely with these young gentlemen, and in your  
3 testimony in chief in December you said that you had  
4 not looked it up too carefully but you knew it was a  
5 deficit?

6 A. That is right.

7 Q. And the grain traffic is allegedly a  
8 deficit also?

9 A. Yes, sir. More than allegedly, if I  
10 remember, they had in this study.

11 Q. Oh, yes, we are dealing with that study  
12 now. Now, have multiple regression techniques been  
13 consistently adopted by the Interstate Commerce Commis-  
14 sion, Dr. Edwards?

15 A. Well, they have not -- they have members  
16 on the staff who are familiar with multiple regression  
17 techniques. Per cents variability which are used  
18 and the 80 per cent factor that we have used over all  
19 goes back to ---

20 Q. Your time?

21 A. Goes back to my time, that is right, and  
22 it goes back, to a large extent, to simple regression  
23 working with the separations that we had between  
24 freight and passenger and yard and road.

25 Q. Have the multiple regression techniques  
26 been adopted by the ICC, Dr. Edwards?

27 A. Well, that question cannot be answered.  
28 The Commission -- I cannot conceive of the Commission  
29 ever saying, "We hereby adopt multiple regression." They  
30





1 look at these cost studies and if they find they are  
2 of prohibitive value we say that we do give recognition  
3 to these facts, but they never go down and say: "We  
4 hereby accept multiple regression, a simple regression  
5 or any other ways and means."

6 Q. The whole basis of rail form A in the  
7 first instance was simple regression. There is no  
8 question in your mind they have adopted simple regres-  
9 sion?

10 A. Yes, but they never said so.

11 Q. Now, we know ----

12 A. I would be very happy to have them accept  
13 it.

14 Q. You told us the cost formula used by the  
15 ICC starting with, we will take #43, was based on simple  
16 regression and simple regression techniques were used.  
17 Now, would you tell me and this Commission whether the  
18 ICC have never adopted a formula based on multiple  
19 regression techniques?

20 A. I certainly hope they do.

21 Q. Have they?

22 A. I cannot answer that question. The point  
23 is that it is ten years since I have been with the  
24 Interstate Commerce Commission and the costs section  
25 has been doing an enormous amount of work with a rapidly  
26 expanding staff. I am sure that many studies have  
27 been introduced that had the multiple regression in them.  
28 I would assume that to be true. Some of the larger  
29 roads have introduced studies with multiple regression  
30





1 and they have accepted their studies, given  
2 them due weight and based findings upon them, so that  
3 to the extent -- that is all I can say on the matter.  
4

5 Q. We are going to discuss some of these  
6 things that you have referred to in your examination  
7 in chief, but still I want to get this business of  
8 consistence -- that the policies adopted by the rail-  
9 roads in this instance were consistently used by  
10 yourself and the I.C.C. I want to know whether you  
11 can tell the Commission whether you have consistently  
12 used multiple regression in your costing?

13 A. No. You say "consistently". I have  
14 been using it and introducing results based on it in  
15 the recent years.

16 Q. Well, I only use that word "consistently",  
17 Dr. Edwards, because both railways follow widely recog-  
18 nized procedures of distributing freight train car  
19 expenses on a combination mileage and time basis which  
20 are consistently used in railway costing; and I wanted  
21 to try and follow through consistently.

22 A. I see.

23 Q. So that your answer is you have not  
24 consistently used multiple regression techniques?

25 A. Well, now, there are certain things  
26 to which multiple regression does not seem to be the  
27 answer, and there are various ways of testing those that  
28 we have used. Let us take freight train cars. That  
29 was based on quite an extensive study made by the  
30 engineers of the Bureau of Valuation of the ICC at my







1  
2  
3 request, as to making an analysis as to the extent to  
4 which freight train car repair costs were variable with  
5 passage of time, car days or the miles, and after very  
6 extended engineering studies, they made their report  
7 and recommended that separation factors for repairs  
8 -- 70 per cent mileage and 30 per cent time; depreciation,  
9 I think, 45 per cent mileage and 55 per cent time --  
10 would be a reasonable and appropriate basis of dis-  
11 tribution. That was an engineering study, not a  
12 multiple regression study.

13 Q. So that would it be your opinion that  
14 these statistical methods as by multiple  
15 regression has to be qualified in their acceptance?  
16 They must be compared to observed data, to other  
17 factors?

18 A. I always like to take three looks at  
19 things. When multiple regression first came to my  
20 attention and I was still with Interstate Commerce  
21 Commission, I was over and took a course in multiple  
22 regression at an American university. Unfortunately  
23 I decided to audit rather than to work the examples,  
24 because everybody had to buy or rent electrical  
25 computers to work by and work problems. If I had taken  
26 the course more vigorously I would have known more  
27 about it, the mechanics of it, at an early stage, but  
28 in any event when we got through with the course I  
29 talked to the professor on our procedures in the cost  
30 section on the various accounts and showed him or told





1 him the various studies we had made in the apportionments  
2 to find variability. I spent quite a lengthy period  
3 of time with him and I said to him: "If you were in  
4 my shoes, what would you do? Would you go overboard --"  
5 I did not use the word "overboard -- "would you go to  
6 multiple regression?" This was about eleven or  
7 twelve years ago. He said: "I think I would be just  
8 as you have been doing."  
9

10 THE CHAIRMAN: You have not gone overboard  
11 yet, then?

12 A. I am half overboard.

13 THE CHAIRMAN: I see.

14 MR. MAURO: Q. All right, Dr. Edwards, you  
15 may be saved yet. Do you feel that it is as precise ---

16 MR. SINCLAIR: Let him finish. I think he  
17 was still speaking. Maybe he has finished; I don't  
18 know.

19 THE WITNESS: I wasn't finished, but I apparent-  
20 ly appear to be at the moment. I am trying to get my  
21 thought back.

22 MR. SINCLAIR: Dr. Edwards, I do not think  
23 there is any intention of the Commission nor of counsel  
24 to stop you making as complete an answer as you wish  
25 and that was not meant. The remark of the Chairman  
26 or of counsel was not meant to stop you from answering.

27 THE WITNESS: Yes.

28 MR. SINCLAIR: This operates differently  
29 than in the United States.

30 THE WITNESS: We have had







1 in other cases with the constancy of maintenance-of-  
2 way expense and have used -- you referred to the  
3 Divisions case -- used multiple regression in that  
4 case. We also used the simple regression, and there  
5 were various tests made. When we got the results of  
6 those studies giving us a track size variable -- let  
7 us say it is \$1000 a track mile or \$900 or some figure  
8 -- it is only accounts 202 to 221 I am thinking about  
9 (you take the entirety but I am talking about that)  
10 my first reaction on that, that that was the expense  
11 that was variable with miles of track and not variable  
12 with volume of traffic passing over the track, to put  
13 it very crudely.  
14

15 So the first thought that came to my mind:  
16 let us check that figure by getting a large number of  
17 branch lines and getting the very low density and  
18 checking experience over a period of years of the  
19 maintenance expense for those accounts per track mile.

20 Then we had the further thought that on lines  
21 being abandoned by the Commission, let us look at  
22 their experience over the last two years or so, which  
23 are reported in the files of the Commission in the  
24 abandonment proceedings, and we analysed some 6,000  
25 annual track miles of abandonments to find out what  
26 was the maintenance expense per track mile.

27 Now, when we come up with a figure, there  
28 should be some relationship between those observations  
29 and what multiple regression should give us.

30 Now, when you speak of other tests, that is





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1 what I am talking about, and multiple regression seems  
2 to have been the most valuable in the maintenance-  
3 of-way area, and it is largely in that area in which  
4 it was used in this procedure.  
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1 Q. Has it been your experience, Dr.  
2 Edwards, that multiple regression techniques are  
3 as precise a measurement as Rail Form A, adjusted?  
4

5 A. You understand what Rail Form A  
6 adjusted is?

7 Q. Yes, I think I do, having read your  
8 statement in a number of cases recently. It is a  
9 combination of the Rail Form A -- the initial one --  
10 that was worked on about 1941 and then B and C, which  
11 were, at the same time, being worked out, touching on  
12 refinements; and I notice in cases where you have  
13 been giving testimony in the recent period you con-  
14 tinue to refer to the fact that Rail Form A adjusted  
15 forms the core of your study; and I am simply now  
16 speaking about it as an instrument of precision, and  
17 I am asking if multiple regression techniques are  
18 as precise a measurement as Rail Form A adjusted?

19 A. Well, of course Rail Form A adjusted  
20 was only introduced in one proceeding, and that was  
21 the Division Case; and the earlier "B" and "C" were  
22 the forerunners of what you might call Rail Form A  
23 adjusted.

24 Now, as to the precision, we used in the  
25 Division Case the result of the multiple regression  
26 ascertaining the results by the observations of the  
27 character I have described.

28 THE CHAIRMAN: That is, it is a test?  
29 It is a good test?

30 THE WITNESS: Multiple regression?







1 THE CHAIRMAN: Yes?

2 THE WITNESS: Yes, I think it is splendid.

3 THE CHAIRMAN: Is it the best test?

4 THE WITNESS: I think it is the mathematical  
5 test.

6 THE CHAIRMAN: But have you adopted it your-  
7 self?

8 THE WITNESS: Yes; when I use Rail Form A  
9 I use the results as determined by multiple regression.

10 MR. MAURO: Q. Dr. Edwards, on this matter  
11 of precision I refer you to what you said on page 2760  
12 of Volume 19. It is towards the bottom of the page:

13 "As stated, in a number of areas, par-  
14 ticularly in regard to using other than winter  
15 operations for development of switching time  
16 for the study traffic and the development of  
17 car miles on normal routing only, procedures  
18 were adopted which understated the variable  
19 cost. Understatements in areas other  
20 than those referred to have also been dealt  
21 with previously. In the portion of constant  
22 costs associated with the study traffic there  
23 is an understatement on the basis described  
24 earlier which amounts to some \$11 million  
25 for Canadian Pacific alone.

26 "Overall, it is obvious from the procedures  
27 followed by the railways in the cost studies,  
28 a deliberate course was adopted so as to be  
29 conservative in determining both the variable  
30





1 and the constant costs chargeable to the movement  
2 of grain and grain products to export positions  
3 in western Canada . . ."

4 We are going to discuss some of these products that  
5 have resulted in these additional costs, but right now  
6 I am concerned about your statement in December that  
7 you followed a deliberate course to be conservative,  
8 and I would like to refer to Exhibit 132. This is the  
9 May position of the C.P.R.

10  
11 You told us in December that the C.P.R. was  
12 being deliberately conservative. Now, on page 3 of  
13 seven pages I notice that the adjustment per yard time  
14 resulting from additional field studies has been  
15 reduced by \$51,900; so in December their deliberate  
16 conservatism included an additional \$51.900 on that  
17 item; but they became even more deliberately conser-  
18 vative in May and took it out?

19 A. I haven't found your line, Mr. Mauro,  
20 I am sorry.

21 MR. SINCLAIR: It is page 3 of 7.

22 MR. MAURO: Q. It is the front item . . .

23 MR. SINCLAIR: Is there a question on that?

24 MR. MAURO: Q. They are more deliberately  
25 conservative in May, to the tune of \$51,900, than they  
26 were in December. The position in December -- they  
27 have been more precise and more conservative on  
28 this item in May?

29 A. Oh, I wouldn't use the term "conserva-  
30 tive." Suggestions were made that there might be this







1 refinement in train-to-train switching matters, and  
2 they made that; they were conservative to the  
3 extent that, having ruled out certain minutes in  
4 this respect they didn't go back and charge the minutes  
5 which had been thrown out and put them in again in  
6 any other train handling. They took the loss, but  
7 didn't go beyond that.  
8

9 Q. They took the loss of \$51,900 and were  
10 even more conservative in May than they were in December;  
11 and Item 2, the increase of maintenance of switches by  
12 \$194,000 in May; so in May on this item they are not  
13 quite as deliberately conservative as they were in  
14 December?

15 A. Well, I am sure they were not deliberately  
16 leaving out depreciation; that was just a straight  
17 error.

18 Q. Then, the maintenance of signals has  
19 been decreased by \$53,000 and the maintenance of water  
20 by \$27,000; so, again, we have increased conservatism  
21 by deliberation in May as opposed to the December  
22 situation?

23 MR. SINCLAIR: Is there a question?

24 MR. MAURO: I have others. These are all  
25 questions he can answer at once.

26 MR. SINCLAIR: I don't think so. I think he  
27 might want to answer the questions one at a time; and  
28 I wish to ask if counsel would put questions instead  
29 of making a statement, because it is obvious that the  
30 witness is waiting . . .





1  
2 MR. MAURO: Q. In December you said that  
3 the railways followed a deliberate policy to be  
4 conservative, and I am saying to you that on those  
5 last two items I mentioned they reduced the maintenance  
6 of signals by \$53,000 and the maintenance of water  
7 and fuel stations by \$27,000 -- that they were more  
8 conservative in May, regardless of the deliberate  
9 policy of conservatism, than they were in December --  
10 that the May decision made them \$70,000 more conser-  
11 vative?

12 MR. McDONALD: What is the question?

13 MR. MAURO: That they are more conservative  
14 in May.

15 THE CHAIRMAN: Put it in the form of a  
16 question.

17 MR. MAURO: Q. Do you feel that they are  
18 more conservative -- more deliberately conservative  
19 in May, having reduced those items by somewhere  
20 around \$70,000, than they were deliberately conser-  
21 vative in December?

22 A. Are you talking about items 1 to 5  
23 on page 3?

24 MR. SINCLAIR: No; 3 and 4.

25 THE WITNESS: 3 and 4?

26 MR. MAURO: Q. 3 and 4?

27 A. No; I don't think they are either more  
28 conservative or less conservative.

29 Q. They are more precise, then?

30 A. They are more precise.





1  
2 Q. Then, on page 6, item 17 -- "train other  
3 supplies" -- they have re-computed that and come up  
4 with a quarter of a million added on to grain; so that  
5 the good, charitable, Christmaslike spirit of the  
6 season has been reconsidered and in May we have a  
7 figure not quite so conservative, to the tune of a  
8 quarter of a million dollars, but more precise; so that  
9 that is a more precise figure than the December figure?

10 A. Yes.

11 Q. But in December you felt that the  
12 December figure was the most precise and the most  
13 deliberately conservative figure that the Canadian  
14 Pacific could come up with for that item?

15 A. No; I don't recall saying the  
16 alternatives as to conservatism on that.

17 Q. I thought your statement was that, overall,  
18 it was obvious from the procedures followed by the  
19 railways in their cost study a deliberate course was  
20 adopted which was to be conservative -- a deliberate  
21 course -- not just by pure accident -- that this was  
22 a deliberate, well-thought-out policy of conservatism?

23 A. Well, let us take, if you want, some  
24 illustration . . .

25 Q. Well, Dr. Edwards . . .

26 MR. SINCLAIR: The witness should be allowed  
27 to give counsel the illustrations which . . .

28 MR. MAURO: There will be re-examination, and  
29 I am asking the questions.

30 MR. SINCLAIR: Counsel has asked a question







1 and the witness wants to give him some examples, and  
2 I think he should be allowed to do so.

3 MR. MAURO: This is the evidence of the  
4 witness in December, and he is referring . . .  
5

6 MR. SINCLAIR: Well, I think you were  
7 reading the transcript, and the witness said he would  
8 like to give some examples, and counsel said "I don't  
9 want them."

10 THE CHAIRMAN: I think the witness should be  
11 allowed . . .

12 MR. SINCLAIR: He should be allowed to give  
13 the examples. You can read them into the record under  
14 the direction of the Chairman.

15 THE WITNESS: There has been exclusion of  
16 doubling and helper miles in locomotive operations; there  
17 is the use of normal grain routing without registering  
18 backhaul; there is no allowance for working capital;  
19 there is no adjustment of the diesel expenses for the  
20 fact that the diesels are quite new; the C.N.R. made  
21 an adjustment to reflect the age of diesels three  
22 years and over; there has been no endeavour to reflect  
23 the increase in labour and material prices since the  
24 end of 1958.

25 I think those are the principal items.

26 MR. MAURO: Q. If you would turn to page 7  
27 of the seven pages -- "Constant Costs" -- there has been  
28 an increase since last December to \$1,763,996; so  
29 that on that item, Dr. Edwards, the policy of conserva-  
30 tism and precision of last December have not prevailed





1 into the spring, and this is now the more precise  
2 calculation?

3 A. There was no endeavour, in being con-  
4 servative, to leave out the terminal divisions.  
5

6 Q. This wasn't a deliberate course?

7 A. No.

8 Q. I thought in December you told us you  
9 deliberately followed a course of conservatism in  
10 keeping these costs down?

11 MR. SINCLAIR: I ask if this is a question  
12 or is it a statement? As I understand it, there is  
13 no question there.

14 MR. MAURO: I am sure the witness will  
15 answer, and if he doesn't my learned friend will get  
16 up and speak and demand that he answer, and we will  
17 go along. If the witness likes to answer he is free  
18 to do so.

19 MR. SINCLAIR: The witness is waiting for  
20 the question of counsel and is not answering statements.

21 MR. MAURO: Q. Well, you will have to  
22 bear in mind my statement earlier in your evidence that  
23 in December you told us they were deliberately follow-  
24 ing a course of conservatism; but what you are now  
25 telling me is that that deliberate course of  
26 conservatism did not go to cancel out \$1,700,000 of  
27 terminal constant costs?

28 A. The conservatism did not go to the  
29 extent of leaving errors in the study when they were  
30 discovered.







1 Q. But for the sake of precision they . . .

2 A. They corrected the error, which is the  
3 appropriate thing to do.  
4

5 Q. In the revised cost submitted in  
6 Exhibit 132 Mr. Stenason explained that there was a  
7 discussion with their consultants and it was decided  
8 to apportion constant cost on a different basis to  
9 that previously submitted. I take it that this  
10 difference was that they now included these terminal  
11 constant expenses?

12 A. Yes; and to reflect the revision of  
13 track miles; they used miles maintained rather than  
14 miles operated.

15 Q. It was on the basis of . . .

16 A. They used miles of track maintained  
17 rather than operated.

18 Q. And how did they allocate that -- on the  
19 same percentage basis?

20 A. The procedures followed from there on  
21 out arithmetically.

22 Q. And you approved of that method?

23 A. Yes.

24 Q. You have referred, Dr. Edwards, to the  
25 Transcontinental Division Case, Docket 31503, which is  
26 referred to in your evidence, and you were a witness  
27 in that case, were you not?

28 A. Yes.  
29  
30





1  
2  
3 You submitted an exhibit in that case, and I am  
4 reading from page 16:

5 "In assigning expenses to a particular  
6 traffic on a cost of service basis, the  
7 cost analyst is limited to those expenses  
8 which come into existence when the traffic  
9 is handled and which disappear when the  
10 particular traffic disappears. Stated  
11 differently, his apportionments are  
12 inherently limited to the variable  
13 expenses that respond to the appearance  
14 or disappearance of the traffic, i.e.,  
15 the avoidable costs. Beyond this point,  
16 the apportionments cannot be based on  
17 cost behavior. If made at all, they must  
18 be arbitrary and hedged with assumptions  
19 which usually must depart in varying  
20 degrees from reality."

21 Do you still hold to the view expressed in the  
22 Transcontinental Divisions Case?

23 A. I hold to that view, but before the case  
24 was through I put in fully distributed costs  
25 as that was a division case reflecting divisions  
26 between the Mountain Pacific roads, the Midwest  
27 roads and official territory roads. Each of the  
28 other groups put in fully distributed costs. We  
29 fought out the battle on an out of pocket costs  
30 basis and took the total revenue needs and  
introduced them in lump sum amounts of revenue  
requirements for those roads and stated that in  
making of divisions by the Interstate Commerce





1  
2  
3 Commission between the east, midwest and far  
4 west, the commission should give consideration  
5 to the respective needs of the various carriers,  
6 and I introduced a great many factors. However,  
7 the other carriers saw fit to reduce these revenue  
8 needs to a unit basis, and towards the end of  
9 the proceedings we decided likewise to do so, not  
10 knowing the extent to which the commission would  
11 be influenced by a showing of fully distributed  
12 costs. So, we stood on our principle. Never-  
13 theless, our opponents had gone to fully distributed  
14 costs, and we did so for the reasons I have stated.

15 Q. Now, we will go back to my question,  
16 whether or not you still are of the opinion that  
17 in assigning expenses to a particular traffic on  
18 a cost of service basis, the cost analyst is  
19 limited to those expenses which come into  
20 existence when the traffic is handled and which  
21 disappear when the particular traffic disappears,  
22 and this point that the apportionments cannot  
23 be based on cost behavior, and, if made at all  
24 they must be arbitrary and hedged with assumptions  
25 which usually must depart in varying degrees  
26 from reality?

27 A. Yes, I think that is a fair statement.  
28 That is in substance what I said this morning.  
29 That is cast in different words.

30 Q. And on page 17:

"Statistical efforts to distribute the  
constant cost or burden are usually more  
misleading than helpful. They assume all  
traffic is identical per ton and ton mile







1  
2 in its ability to contribute to revenue  
3 needs. Nothing could be further from the  
4 facts. Most raw materials make a unit  
5 contribution far below the average, whereas  
6 most manufactured items contribute well above  
7 the unit average, but even this rule often  
8 does not apply uniformly. On some commodities  
9 short hauls make a high unit contribution and  
10 on others, it is the long haul. Some  
11 traffic contributes little or nothing, as  
12 shown in the commission's burden studies.

13 Because rail traffic is not homogeneous  
14 as to ability to pay, fully distributed cost  
15 comparisons based on a ton and ton mile  
16 prorate of constant costs can be very  
17 misleading. Sometimes volume moving  
18 traffic with lower than average unit  
19 contribution may make the highest dollar  
20 contribution because of volume. Even worse,  
21 hypothetical statistical distributions on  
22 the prorata ton and ton mile basis cannot  
23 indicate whether a carrier's urgent financial  
24 needs are being met in total, met in part,  
25 or not met at all; nor can they distinguish  
26 or otherwise throw light on the traffic sources  
27 for a recovery of these needs."

28 You have no reason to change your mind on  
29 that basis?

30 A. No sir, except that this question of  
high rated traffic which moves above fully  
distributed costs, that, with the increasing  
competition, an erosion of that traffic to highway





1  
2  
3 carrier movement, and to private carriage in  
4 particular, it is not quite as true as it was  
5 in my earlier writings.

6 Q. When did you put this one in?

7 A. Well, let me finish my sentence. It  
8 is not quite as true, that you can recover your  
9 revenue needs with a substantial degree of  
10 freedom from the high rated traffic. That was  
11 the substance -- that turn of events is coming  
12 about and qualifies what I said earlier  
13 this morning. I know the date of that is recent --  
14 what year was it -- 1959 or 1958?

15 Q. 1958. The final arguments are just  
16 being put in on some of them.

17 A. Well, that may have been before I did  
18 a little job for the Soo Line in the case and  
19 discovered that the railroads in the United States  
20 have been stagnating for the last ten years and  
21 are not hauling any more traffic today than they  
22 were in 1947, 1948 and 1949, and there has been  
23 a heavy loss of the higher grade traffic and the  
24 revenue on that traffic.

25 Q. This was at the same time as some of  
26 our friends from the railways were preparing  
27 their costs, and since that time you have had  
28 experience of different problems which would  
29 lead an honest man to make changes in his  
30 approaches?

A. If you read some of my other testimony,  
which you don't have, you would be informed.

Q. Well, I have got a fair amount more. Now,  
at page 38 of the same exhibit:







1  
2  
3 "Included in the intra-mountain-Pacific  
4 traffic are low rated commodities, such as  
5 logs into lumber mills, and ore into  
6 smelters, which produce outbound commodities  
7 moving transcontinentally. That the rates  
8 on these commodities are very low has been  
9 shown in the Commission's burden studies.  
10 In dealing with this traffic, the cost  
11 methods applied by Witnesses Heywood and  
12 Carpenter assume that such traffic can  
13 make and is making, a contribution to overhead  
14 burden per ton and per ton mile equal to  
15 that of all other commodities, including  
16 the outbound lumber and smelter product  
17 movements. In view of the low rates on  
18 these raw products, such assumption of  
19 equal ability to pay of raw and finished  
20 products is plainly unsound."

21 A. Is there a question on that?

22 Q. Yes: do you change your -- I am quoting  
23 you and asking if you are of the same mind? That  
24 is my question on all these quotations?

25 A. Yes, but reading a sentence in there,  
26 I didn't follow the point -- in the middle of it.

27 Q. The point I was interested in was: "In view  
28 of the low rates on these raw products, such  
29 assumption of equal ability to pay of raw and  
30 finished products is plainly unsound." As  
I understood that case, Heywood and Carpenter  
were suggesting they should prorate on a  
fully distributed cost basis of ton miles on all  
the products handled by the Mountain Pacific in





1  
2 intra-Mountain-Pacific traffic, and you, very  
3 properly, pointed out this is completely unsound,  
4 because much of their traffic is on low rate  
5 commodities, such as logs and ore, and you  
6 concluded with the sentence, "In view of the  
7 low rates on these raw products, such assumption  
8 of equal ability to pay of raw and finished  
9 products is plainly unsound", and I ask you  
10 whether today you are of the same opinion?

11 A. Oh yes, I am of the same opinion. You  
12 mentioned earlier again this afternoon that  
13 coal was making this greater contribution, but  
14 with the loss of contribution on other traffic,  
15 that still leaves this problem unsolved. Even  
16 if one commodity may make more contribution,  
17 still the total contribution may not be enough  
18 to satisfy revenue requirements.

19 Q. That is what you and I discussed on  
20 coal, that the statistical contribution was  
21 meaningless without the volume?

22 A. It goes beyond that. Coal makes this  
23 very heavy contribution, yet that doesn't mean  
24 automatically that certain large eastern  
25 coal hauling railroads are making a full and  
26 reasonable rate of return. It takes a lot more  
27 than coal to do it.

28 Q. But in determining a rate on coal you  
29 would be concerned with whether or not coal was  
30 making a just and reasonable contribution?

A. Yes, but this other point is essential.

Q. One other reference. In your conclusion  
No. 2, page 41, you say:





1  
2  
3 "The study of the costs directly associated  
4 with transcontinental traffic does not  
5 deal with the contribution which this  
6 traffic should make to overhead burden,  
7 as this is a question that cannot be  
8 determined by accounting cost formula but de-  
9 pends upon the economic and financial facts  
affecting the respective groups of roads."

10 You have no reason to change your mind on that  
11 statement?

12 A. No sir.

13 ---Adjournment.  
14  
15  
16  
17  
18  
19  
20  
21  
22  
23  
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25  
26  
27  
28  
29  
30





*Hon. C. P. McTaggart*

# ROYAL COMMISSION

ON

## TRANSPORTATION

HEARINGS

HELD AT

OTTAWA

VOLUME No.:

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## I N D E X

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By Mr. Frawley

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Description

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Appendix A to Cost Standards  
and Rate Discrimination

12808







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ROYAL COMMISSION ON TRANSPORTATION

Proceedings of hearings held in  
the Court Room, Board of Transport  
Commissioners Offices, Ottawa,  
Ontario, on the 31st day of May,  
1960

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Ottawa, Ontario,  
Tuesday,  
May 31, 1960

--- On resuming at 10.00 a.m.

THE CHAIRMAN: Order, please. Mr. Mauro?

MR. MAURO: Thank you, Mr. Chairman.

F.K. EDWARDS, Recalled

CROSS-EXAMINATION BY MR. MAURO (cont'd.)

MR. MAURO: Q. Dr. Edwards, when we adjourned yesterday we were discussing this matter of multiple regression analysis, and particularly with reference to some of the cases that you have appeared in and testified on various costing techniques. I have referred you to the Transcontinental Divisions case, and I would refer you now to your exhibits T-315 in Docket 31505, which is commonly referred to as the Mountain-Pacific submission. You were discussing the matter of the need for direct cost Dr. Edwards, and that is the heading at page 9, and at page 10 you continue:

" The Mountain-Pacific cost study goes further, it is believed, toward the attainment of the full limits of direct cost assignments than has heretofore been accomplished. It has applied the principles of Rail Form A and other more refined formulas issued by the Commission's staff; it has recognized the pronouncements of the Commission itself concerning the inherent nature of rail costs, particularly as bears on the treatment of the constant costs, and the impossibility of apportioning these costs to specific units of traffic on any cost of service basis."





1  
2 I assume that your opinion as expressed in  
3 Exhibit T-315 of the Mountain-Pacific case to the  
4 effect that it is impossible to apportion this constant  
5 cost to specific units of traffic on any cost of service  
6 basis would be valid as in May, 1960, as it was at the  
7 time you voiced that opinion?

8 A. Yes; and in speaking of that cost of service  
9 apportionment I refer to the test that the costs are  
10 variable with the units of service performed, because  
11 from time immemorial costing throughout industry has  
12 lumped in on a percentage and overhead basis -- on  
13 a percentage basis various overhead of a constant and  
14 a fixed character, and those commonly have been referred  
15 to as costs, costs of the operation, or costs of  
16 segments of the operation. So when I speak of the  
17 impossibility of it I am referring to this precise test  
18 of attaching the expenses to the variable units based  
19 on the variability of those expenses with those units.

20 Q. The next reference I would bring to your  
21 attention is that of Docket 31503, Exhibit T 635,  
22 witness Ford K. Edwards, the Transcontinental Divisions  
23 case. I am reading from page 18 of your exhibit:

24 " The reason for the unrealistic results  
25 produced by the Meier-Gepfert calculations appears  
26 from the assumptions inherent in multiple regression  
27 calculations, and the failure of the data upon which  
28 the calculations were based to comply with those  
29 assumptions. One of the fundamental assumptions  
30 underlying the use of multiple regression is that  
the so-called independent variables are independent.  
Thus, when total maintenance costs are expressed as







1  
2 " a function of gross ton miles and miles of track,  
3 the gross ton miles and miles of track are assumed  
4 to be independent; that is, one is not the function  
5 of the other. If this assumption is not correct,  
6 then the least squares calculation becomes either  
7 impossible or meaningless, depending upon the de-  
8 gree of correlation or lack of independence. That  
9 is, if there were a perfect linear relationship  
10 between gross ton miles and miles of track, it  
11 would be arithmetically impossible to go through  
12 the usual least squares calculations to determine  
13 regression coefficients. If the relationship is  
14 not perfect but there is, nevertheless, a strong  
15 linear tendency, it is then possible to go through  
16 the mechanics of the least squares calculations  
17 and arrive at arithmetical values. The values  
18 so resulting, however, are said to be unstable and  
19 are often quite meaningless, and this is the case  
20 with the Meier-Gepfert calculations.

21 The reason for the results produced by the  
22 Meier-Gepfert regression calculations lies in the  
23 fact that included in the 19 Midwestern complainant  
24 roads are some roads that are very small, and at  
25 the other extreme a number of roads that are  
26 relatively large. The small roads have few miles  
27 of track and few gross ton miles. The large roads  
28 have a great many miles of track and accumulate a  
29 great many gross ton miles. There is not a perfect  
30 linear relationship between miles of track and gross  
ton miles, but there is certainly a strong linear  
tendency. For these 19 Midwestern roads the co-





1  
2 " efficient of determination between miles of track  
3 and gross ton miles is .89. This means that  
4 89 per cent of the variation in gross ton miles is  
5 explained by the variation in miles of track. With  
6 such a strong relationship between variables  
7 assumed to be independent, it is not surprising  
8 that the multiple regression results are meaningless.

9 The 95 per cent confidence intervals shown for  
10 the Midwestern roads on sheet 1 of Witness  
11 Gepfert's Exhibit MW-531 range from minus values  
12 to plus values. This means that the constants  
13 per mile of track contained in these regression  
14 analyses are not significantly different from  
15 zero. Whatever answer is obtained, whether plus  
16 or minus, is more of an accidental nature than a  
17 meaningful figure."

18 I assume that the general analysis that you  
19 have submitted there, Dr. Edwards, in regard to the  
20 multiple regression calculations and the need to  
21 assure oneself of independence, real in-  
22 dependence, still applies today, but you would  
23 apply this criterion and this check in assessing  
24 any multiple regression coefficients to determine  
25 whether or not they were really independent before  
26 accepting as meaningful or statistically significant  
27 the results of those regressions?

28 A. That is right. Our problem -- the western  
29 roads introduced these regression formulas for maintenance  
30 of way which brought out wide varieties of results  
including showing that the constant costs were not only  
close to zero but in one instance was a minus quantity,  
and that all costs - the implication there being that







1  
2 costs were variable, and this reply here was an  
3 analysis of the wide varieties of spreads which they  
4 introduced and left the limited comment upon them.  
5 That statement was prepared by myself with the  
6 assistance of regression analysts retained by our  
7 people in the Mountain-Pacific case.

8 Q. Did you check the coefficients of Messrs.  
9 Stenason and Bandeen and satisfy yourself that the co-  
10 efficients utilized particularly by Mr. Stenason were  
11 meaningful, that there were no minus coefficients, and  
12 that all of the coefficients brought results signifi-  
cantly different from zero?

13 A. Yes, I did that. I can best explain the  
14 situation by giving you the whole background of this  
15 matter. It was desired in this case, as in the  
16 Mountain-Pacific case, to ~~separate~~ main lines from  
17 branch lines and to take advantage of whatever techniques  
18 were available, and multiple regression techniques are a  
19 very useful tool, and they are increasingly so, because  
20 we have access to electronic machines that permit the  
rapid application of the formulas.

21 In my first contact with the railroads I  
22 was informed that they contemplated multiple regression  
23 tests and they asked if I had any suggestions. My  
24 first suggestion was that they bring in the services  
25 of an independent consultant, which we had available  
26 to us in the Mountain-Pacific case, a professor from  
Chicago University, and Dr. Hood was brought in.  
27 Mr. Stenason and Mr. Bandeen both had training in this  
28 area. Multiple regression tests were run for a wide  
29 variety of accounts: they were run for yard and way  
30 switching, they were run on freight train car repairs,





1  
2 they were run on maintenance of way. My area of  
3 operation in that was first to take the benefits of  
4 gression analyses that the experts could provide and  
5 that they would make the mathematical and technical tests,  
6 and that was done by these gentlemen and by Dr. Hood.  
7 Dr. Hood put his stamp of approval on any values that  
8 we used. In addition to that, however, I recalled the  
9 test that I thought desirable in the Divisions case.  
10 For testing the constant cost we might go out and find  
11 where we could in the accounts and in the operations  
12 get the thing we are seeking to isolate through re-  
13 gression. This was done by the C.P.R., and their  
14 actual maintenance expenses and some thousands of miles  
15 of branch lines and their investments were laid against  
16 the results of the regression, and there was very  
17 little difference found.

18 Another test ultimately in this test --  
19 regression is fundamentally boiled out to produce only  
20 the maintenance of way accounts. It is used for various  
21 overhead, small overhead accounts and individual accounts,  
22 but the weight it carries in the study is largely  
23 limited to its use for maintenance of way. Now, that  
24 provides another test. I have been working with  
25 maintenance of way per cent variables as long as I have  
26 been in this cost work, and I have always been keenly  
27 interested in what is the per cent variable that is  
28 found in an operation for a given density. The  
29 maintenance of way expenses for these two roads were  
30 found to be 37 per cent variable in the case of the  
Canadian Pacific, 39 per cent variable in the case of  
the Canadian National. Now, considering the density of





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(Mauro)

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1  
2 their traffic, that is just about where I would predict  
3 their per cent variables to be. On high density roads  
4 in the United States the per cent variable may go up  
5 as high as 70.  
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(Page 12740 follows)







1 The average is close to 60 per cent of density some-  
2 where in the neighbourhood of six million gross ton  
3 miles per mile of track. Theirs is somewhere in  
4 the neighbourhood of three and a half to four million.

5 So we had the benefits of regression analysis;  
6 we had the benefits of turning to areas where the density  
7 was very small. The thing you are trying to isolate is  
8 sitting there before you to be picked up, and we had the  
9 general experience ratio, at least I have had a wide  
10 range of railroads, where you can fairly well predict  
11 for any density within a fair margin of what the per  
12 cent variable would be.

13 Q. Now, Dr. Edwards, in your review of the  
14 work of Stenason and Bandeen, did you come across any  
15 minus coefficients, did you personally see any co-  
16 efficient of minus values being used?

17 A. I think they had a minus coefficient in  
18 the yard switching.

19 Q. You would certainly, following your long-  
20 established views on this matter, have rejected any ---

21 A. You mean minus coefficients? I mean  
22 minus constants. You are talking about minus co-  
23 efficient.

24 Q. Let us settle with the coefficients  
25 first. Did you observe with any of these formulas  
26 that were finally adopted, that there were minus co-  
27 efficient?

28 A. I don't know ---

29 Q. No? What about minus constants?  
30





1 A. I believe there was something approaching  
2 a minus constant in yard expenses, yes, they had a  
3 minus constant of \$25,000, which means that the expenses  
4 are slightly over 100 per cent variable. When they  
5 are then you get a minus constant.  
6

7 That is close to my own observations on yard  
8 operations over a period of time, that they are practi-  
9 cally or at 100 per cent variable, maybe over 100 per  
10 cent variable: meaning that as added traffic is added to  
11 a terminal operation over a period of years, and you  
12 either run into congestion or you have to enlarge the  
13 facilities in some degree and yard switching becomes a  
14 little more complicated and the transfers a little  
15 longer -- that, with the growth of traffic in the cars  
16 handled and their total through those yards, including  
17 origin and destination switching work, the expenses  
18 can go up as fast as, or can go up even a little faster  
19 than the rate at which traffic is added. Now, that is  
20 the substance of that minus constant.

21 Q. Now, in your statement in the Trans-  
22 continental Divisions case you mention this figure  
23 95 per cent confidence, and I wondered whether you  
24 would tell this Commission what you as a most experienced  
25 man in this costing field, would accept as the limits  
26 of confidence, the standard of error, the point at which  
27 you would hold that a result was sufficiently insigni-  
28 ficant or significant? Would you accept the 5 per  
29 cent standard of error or 95 per cent confidence interval,  
30 or would you accept nine per cent or eight per cent?







1 What is your range, Dr. Edwards?

2 A. When I came to those tests, as I have ex-  
3 plained, I first got some good men around me, sat down  
4 with them and had them tell me -- in the Divisions  
5 case we ran many, many regressions, tested many models.  
6 Those models all came to me, and when they came to me,  
7 why, we sat down with the men that had prepared them, and  
8 our advisers, and analysed them as to their tests of  
9 significance; but the 95 per cent and 5 per cent factors  
10 you mentioned are commonly used, I know, and used by  
11 them.

12 Q. I mean, you and I, Dr. Edwards, when I  
13 questioned Mr. Stenason about that fact and referred to  
14 problems in costing, I thought that I was using elementary  
15 costing. Two and two make four, that is still elementary,  
16 but it is a pretty important truth. You and I know that  
17 statistically in the United States in the use of this  
18 material, 95 and 5 per cent is the statistical level?

19 A. I wouldn't say it is a statistical level.  
20 Maybe you do not find a regression that satisfies the  
21 specific test, but I am not setting that down as the one  
22 and only test.

23 Q. Not the one and only test?

24 MR. SINCLAIR: I must say, Mr. Chairman, it  
25 is interesting to note that counsel knows these things,  
26 and that means he is going to get on to standards.

27 THE CHAIRMAN: I think we should recognize  
28 that he has done considerable homework.

29 MR. SINCLAIR: We would like the opportunity  
30





1 of testing that, if weight is going to be given to the  
2 counsel's statement.

3 MR. MAURO: I am cross-examining and I can  
4 put questions to the witness in any manner I see fit, and  
5 I put to you that ---

6 MR. SINCLAIR: With respect, I do not think  
7 that is right. He has to put questions to the witness  
8 in the proper way as the Commission sees fit.

9 MR. MAURO: I would put it in the manner in  
10 which the Commission sees fit and not counsel for the  
11 C.P.R.

12 MR. SINCLAIR: That is what I said.

13 MR. MAURO: Q. I put it to you, Dr. Edwards,  
14 that you would not touch a coefficient at 90 per cent  
15 as suggested by Mr. Stenason; unless you had been men-  
16 tally fumigated that is completely abhorrent to a man  
17 of your experience.

18 MR. SINCLAIR: The language used by counsel,  
19 I think, is improper, "mentally fumigated".

20 MR. MAURO: Q. I say a man of your past,  
21 Dr. Edwards, would not accept a coefficient at the 90  
22 per cent level as suggested by Mr. Stenason -- I mean  
23 what I say -- because I have that respect for you, be-  
24 cause it would be intellectually abhorrent to you to  
25 take a coefficient factor with that margin of error at  
26 90 per cent level?

27 THE CHAIRMAN: You are asking him?

28 MR. MAURO: That is quite right.

29 THE WITNESS: Well, you really put me on the  
30





1 spot, because I have been making cost studies for  
2 twenty-five years all over the country that had wide  
3 acceptance, and it is only in the last couple of years  
4 or so that we began using these tests. So that when  
5 you say I would have backed away from this, we did not  
6 have multiple regression until IBM brought in the 650's  
7 in the last year or two, so in my past work we used  
8 simple regression on a vast scale by individual  
9 accounts isolating the expenses on the same railroad,  
10 on railroads of different densities; and out of that  
11 came this 80 per cent, variability per cent 80 to 90  
12 which we have used at the 80 per cent level.  
13

14 Now, when you said I would never have used  
15 this confidence limit that you speak of, obviously I  
16 did not always have it at hand.

17 Q. In the one where you used multiple  
18 regression in the last couple of years and bearing in  
19 mind your exhibit in the Transcontinental Case, I say  
20 again that in your use of the multiple regressions  
21 in the last two years, with the men that you have sur-  
22 rounded yourself with to assist you in correlating  
23 these regression analyses, you would not accept a  
24 coefficient or a value that had an interval of error  
25 or a confidence interval or a standard of error beyond  
26 the five per cent level or at the ninety per cent, as  
27 opposed to the 95 per cent limit. Am I correct in  
28 my assumption that you would not use it?

29 A. Well, to answer you honestly, I would  
30 have to go back to my advisers and ask them if they







1 led me into this so-called trap or fallacy. I could  
2 not do that at the moment.

3 Q. But you told us that when you surrounded  
4 yourself with these men in determining this particular  
5 case, it was taken at the 5 per cent level, that was  
6 the advice you received?

7 A. We did not discuss the specific tests.  
8 We had all the tests before us, and the tests that I  
9 had before me in that case were not only those tests  
10 but the fact that in using, as I recall, in our track  
11 variable for certain limited track accounts which are  
12 our key accounts, maybe in the exhibit I think we used  
13 somewhere around \$930 a track mile. My office went out  
14 and examined some 6,000 annual track miles of abandon-  
15 ment, 3,000 miles of track, and, without allowing for  
16 deferred maintenance I came up with a factor of \$40 or  
17 \$50 different from that. We adjusted for the deferred  
18 maintenance and we came up with something very close  
19 to this value here within \$30 or \$40 of it, so it is  
20 that body of tests that led me to that confidence as  
21 well as the statistical tests.

22 Q. Yes, it is rather coincidental, as a matter  
23 of fact, Dr. Edwards, that in this exhibit, when I was  
24 discussing it with Mr. Stenason, he told me that he re-  
25 jected any arbitrary statement of the five per cent  
26 significance and there were certain coefficients sig-  
27 nificant at the 10 per cent or at the 90 per cent  
28 confidence interval, and in this very exhibit at page  
29 13 you said:





1 "For these 19 midwestern roads the  
2 coefficient of determination between miles of  
3 track and gross ton miles is .89. This means  
4 that 89 per cent of the variation in gross ton  
5 miles is explained by the variation in miles  
6 of track."

7  
8 In other words, at the 89 per cent level.

9 "With such a strong relationship between  
10 variables assumed to be independent, it is not  
11 surprising that the multiple regression results  
12 are meaningless."

13 So that in that exhibit you properly, through the  
14 instruction of your adviser, have rejected as meaningless  
15 coefficients and variables that resulted within one  
16 per cent of what Mr. Stenason has said he has accepted,  
17 and you go on to say that you would accept as your  
18 minimum requirement of confidence, the 95 per cent  
19 interval of confidence or the 5 per cent standard of  
20 error?

21 A. I think it explains it.

22 Q. Yes?

23 A. The point I was raising, that you have  
24 got only a fraction of my exhibits on the constant  
25 costs that were used and that the tests used. That is  
26 the point I am explaining.

27 THE CHAIRMAN: Mr. Mauro, what is the date  
28 of that exhibit?

29 MR. MAURO: I will get that for you, sir.  
30 It is part of 31503. I do not have the date.







1 THE CHAIRMAN: In what year?

2 MR. MAURO: That would be, I think, in 1958.

3 I will make a note to get the accurate date for you,  
4 Mr. Chairman.

5 MR. SINCLAIR: Mr. Chairman, so that I  
6 may understand it, did I understand counsel to say that  
7 the 89 per cent that he referred to there was within  
8 one per cent of the amount that was here? If so, I  
9 wonder if counsel would explain what the question was  
10 based on because I cannot follow it.

11 MR. MAURO: The witness understood me, Mr.  
12 Chairman, and when the time comes to argue my learned  
13 friend and I are going to understand it.

14 MR. SINCLAIR: Mr. Chairman, I think I have  
15 the duty here, and if the question put by counsel is  
16 that the 89 per cent is one per cent -- that was  
17 referred to there -- from the 90 per cent ---

18 MR. FRAWLEY: Mr. Mauro is doing very well  
19 in satisfying the witness. I don't know whether he  
20 will undertake to satisfy counsel.

21 MR. MAURO: Counsel may ask the witness him-  
22 self. It is his witness.

23 THE CHAIRMAN: Dr. Edwards, I wonder if the  
24 witness and counsel are at cross-purposes. I think that  
25 the witness and counsel understood one another, isn't  
26 that true?

27 THE WITNESS: I believe so.

28 THE CHAIRMAN: Let us get on the rails again.





1  
2 Q. One further reference, Dr. Edwards, to  
3 material you submitted on this question, and, as a  
4 matter of fact, I think you told us this experience you  
5 had during the testimony yesterday, but I thought I  
6 would put it on the record -- the Interstate State  
7 Commerce document 31503, The Akron, Canton & Youngstown  
8 Railroad Company, et al vs. The Atchison, Topeka &  
9 Santa Fe Railway Company, et al. This is the cross-  
10 examination of you by Mr. Freeman at Washington on  
11 April 3rd, 1959, and I am referring to Volume 40 of  
12 the transcript, pages 9248 to 9250:

13 " Q. Does it raise statistical questions,  
14 questions of the statistical reliability  
15 of the procedure?

16 A. It raises questions as to the practical  
17 meaningfulness of the data.

18 Q. But not technical statistical questions?

19 A. Oh, I had no question on the technical  
20 questions involved -- technical applications  
21 of the formula.

22 Q. From your standpoint is the standard  
23 error for the 14 Transcontinental Defendant  
24 roads of \$176, under Equation "A" a satis-  
25 factory standard error?

26 A. Well, I would say it is still a substantial  
27 range in the confidence intervals.

28 Q. That is, you do not regard it as satis-  
29 factory?

30 A. Well, it is hard to take this data and





1 " qualify it or characterize it as satisfactory or  
2 unsatisfactory. These tests are measured as an  
3 approach to a problem -- a theoretical statistical  
4 approach to a problem that can be helpful and can  
5 be appraised, but they certainly have to be  
6 appraised in the light of practical observa-  
7 tions.  
8

9 With the Cost Section we made various  
10 attempts at correlation analysis and determina-  
11 tion of per cent variable, and staff members  
12 too had taken courses in the subject. Sometimes  
13 the figures would comport with observations and  
14 studies of per cent variable of the character  
15 you were referring to yesterday. Sometimes  
16 they got results that were, to me absurd. I  
17 was intrigued by the subject at that time, I  
18 might say, I went over to American University  
19 and took a course of correlation analysis,  
20 which was a difficult course.

21 When I got through with the course I took  
22 my problems to the instructor, in the ways and  
23 means of the Cost Section we were arriving  
24 at per cent variable, and explained them to him,  
25 studies of the type that were described in  
26 Senate Document 63, and of the type that  
27 were in the statement 4.54, and asked him  
28 if there was possibility that we could abandon  
29 those practical observations, or the behaviour-  
30 ism of observed data for roads having different







1 density levels, and turn for primary reliance  
2 on mathematical correlation analysis.

3 His advice to me was I should keep on  
4 relying on the type of data we were using.  
5 This other provides possibly supplementary  
6 approach, but the other gave results that made  
7 sense -- I mean the approach we had followed --  
8 and is why I have relied basically upon that  
9 in my own reasoning. I have to be able to  
10 rationalize the result. I wouldn't trust  
11 any statistical device that I couldn't inde-  
12 pendently check by plain observations from  
13 current data reported in the accounts and in  
14 the statistics.

15  
16 Q. When you say observations of data, you  
17 are referring to the kinds of data that are  
18 reported in 4-54?

19 A. Yes, and in this instance here of data  
20 in the abandonment analysis we have made.

21 Q. So when you find a value in your earlier  
22 study for 39 freight roads, using regression  
23 analysis of \$907, you are not relying on the  
24 regression analysis, as such, for your con-  
25 clusion?

26 A. I am not relying upon it independently.  
27 I want to check it against the observed  
28 data."

29 My purpose in putting that into the record,  
30 Dr. Edwards, is simply to ask you that where you adopt





1 the procedures of the Canadian Pacific and Canadian  
2 National in the field of multiple regression, you  
3 want to tell this Commission that you adopt it in the  
4 light of what you have said in these cases, that it  
5 should be checked against observed data, and it has  
6 many shortcomings as an instrument of precision; is  
7 that correct?

8  
9 A. No, I don't think it has shortcomings  
10 as an instrument of precision. I think it is probably  
11 more precise than any of the observations we have relied  
12 upon in the past. To give the date time, I made a  
13 reference yesterday to this experience I had, and that  
14 was back some twelve years ago, and I think the work  
15 done in the railroad field in multiple regression has  
16 advanced enormously since around 1948. Those were  
17 later years when I was with the Interstate Commerce  
18 Commission. As to this matter of the testing, I  
19 always feel, in making a cost study, whether it is  
20 small or large -- and certainly when large amounts  
21 are involved -- that I can never rest until I have  
22 assured myself from all possible observations that  
23 the results that come out of that study and the factors  
24 that went into the study are reasonable in every respect.  
25 So that I am always interested in any additional tests  
26 or means. Now, very wide use is being made by the  
27 American railroads of multiple regression, particularly  
28 since many of them have the 650 and other electronic  
29 machines for their accounting purposes, and there are  
30 standard formulas available for -- procedures, rather,







1 for running multiple regression tests, and it is being  
2 widely done. I believe that the results that have  
3 come out of those tests have pretty well confirmed  
4 what we have been doing before. In the Transcontinental  
5 Divisions case we were greatly interested in what per  
6 cent variable we would come up with with the use of  
7 multiple regression on maintenance of way, the results  
8 of which have the greatest significance in changing  
9 the overall per cent variables, and we came up very  
10 close to 80 per cent variables for the accounts. On  
11 the higher density roads, as one would expect, we came  
12 up with, as I recall -- and it is in the record you  
13 have reviewed and you can probably check me on this --  
14 but I think we came up with 81 or 82 per cent varia-  
15 bility overall for the high density Mountain Pacific  
16 and Eastern Lines, where they were up around 8 million  
17 or 9 million gross ton miles per mile of track, and  
18 the midwest which was somewhere in the range of 5 million  
19 or so gross ton miles per mile of track, and that  
20 came up somewhere around 3 points or so below 80; but,  
21 they hovered right around the 80 factor we have been  
22 using for years, based on simple regression tests and  
23 observations of the type I have described.

24  
25 Q. Dr. Edwards, on April 3rd, 1959, when you  
26 gave this testimony there were IBM machines operating  
27 daily in the United States, the multiple regression  
28 techniques from April 3rd, 1959, to date -- it is in the  
29 last two or three years that the refinements to multiple  
30 regression have been made that you refer to?





1           A.    Well, the mathematics were there.    I am  
2 not aware of the broad use by the carriers.    Most of  
3 their purchases of 650 machines have been in recent  
4 years.

5           Q.    In recent years?

6           A.    The last two or three years.

7           Q.    Yes, well, this evidence is April 3rd,  
8 1959, and on that date when my learned friends were in  
9 the process of conducting their examination of the grain  
10 study in the Dominion of Canada, you told Mr. Freeman  
11 in Washington, "His advice to me was I should keep  
12 on relying on the type of data we were using.    This  
13 other provides possibly supplementary approach, but the  
14 other gave results that made sense -- I mean the  
15 approach we had followed -- and is why I have relied  
16 basically upon that in my own reasoning.    I have to be  
17 able to rationalize the result.    I wouldn't trust any  
18 statistical device but I couldn't independently check  
19 by plain observations from current data reported in  
20 the accounts and in the statistics."

21           I suggest to you, Dr. Edwards, that that is,  
22 in fact, your opinion today, that you are distrustful  
23 of statistical devices that do not conform to observed  
24 data, and this is the position you would want to  
25 place before the Commission?

26           A.    No, I am not distrustful of statistics.  
27 I take statistics and ---

28           Q.    I think you are misunderstanding my  
29 question.  
30





1 A. You put more into my mouth than I said.

2 Q. I am not saying you distrust statistical  
3 devices. I said you distrusted statistical devices  
4 that do not conform to observed data. My question  
5 was, in reference to this, that -- "I would not trust  
6 any statistical devices that I couldn't independently  
7 check by plain observations from current data reported  
8 in the accounts and in the statistics."

9 A. No, and I don't distrust multiple regres-  
10 sion, and I have used it, and in the Transcontinental  
11 Divisions case we used multiple regression analysis,  
12 but my experience has been throughout on my cost work  
13 that when anyone passes me a figure -- when my own  
14 staff passes me a figure, it must comport in some  
15 degree with my own knowledge on the subject, because  
16 I have been running simple regressions for 25 years,  
17 and when multiple regression came in it would be hard  
18 for me to understand suddenly that all our simple  
19 regressions based on the counts broken down through  
20 the accounting process, rather than relying on  
21 multiple regression, that the two should harmonize,  
22 and I would say that the results do harmonize.

23 COMMISSIONER MANN: Dr. Edwards, I get the  
24 impression from what is contained in Document 31503  
25 that you then regarded multiple regression techniques  
26 as supplementary to observational tests. Today, do  
27 you perhaps feel that observation is supplementary to  
28 multiple regression tests?

29 THE WITNESS: No, I would not say that.  
30







1 COMMISSIONER MANN: There is no quality  
2 judgment in there, is there?

3 THE WITNESS: I can't pick up any figure  
4 even on observation until I hunt around and test myself  
5 against something else. I am inherently distrustful  
6 that two and two equals four until I add it up myself.  
7 That is the problem you face when testifying in cost  
8 cases where great amounts and issues are at stake. You  
9 are nervous all the time that you have goofed somewhere.  
10 So, you endlessly test and check.

11 THE CHAIRMAN: You test and cross-check?

12 THE WITNESS: You test and cross-check. Since  
13 I have been in this case I have taken the experience in  
14 various categories of all the American roads by density  
15 groups, on their density of traffic, total volume of  
16 traffic and the relationship of that to their car miles,  
17 the relationship of empty to loaded car miles, the total  
18 car ownership, the through trains to total traffic den-  
19 sity, the relationship and behaviour of the total main-  
20 tenance of way expenses, the maintenance of equipment  
21 expenses, transportation expenses. I haven't done that  
22 in that form previously. I have done it by territories  
23 and groups. They were just tests to check out whether  
24 the behaviour of those roads conformed to the density,  
25 and the general behaviour. That is what I mean by this  
26 ceaseless testing.  
27  
28  
29  
30





1  
2 Now, in the 31503, the Transcontinental  
3 Divisions case, we worked with, and the results of,  
4 multiple regression, but before the exhibits went in I  
5 asked the Santa Fe to take some 10 or 20 branch lines  
6 and scattered areas -- very low density -- and go back  
7 and dig out maintenance of way expenses. I also sent  
8 my staff over to the ICC and started drawing up a  
9 study of branch line abandonment and their testimony  
10 on roads in the midwest and Mountain-Pacific and,  
11 eventually the United States, to see if we were coming  
12 back to what we initially used -- \$907 per track mile --  
13 and later, when the study was advanced -- brought up to  
14 date -- we used somewhere around \$987. We used their  
15 new precise figures; but up until the hearing ended  
16 I never stopped trying to see if we were correct.

17 So that you say which did I put my reliance  
18 on? Well, I don't know; but we had started out with  
19 those observations, and if someone said, "Here is a  
20 new technique -- multiple regression. Are you in-  
21 terested?" I would say "I certainly am" and I would  
22 go to work right away and compare the two by using  
23 the mathematical result of multiple regression.

24 COMMISSIONER MANN: You feel you would never  
25 accept any conclusions arrived at on the basis of the  
26 statistical method unless you had subjected it to  
27 observational test?

28 THE WITNESS: Yes.

29 COMMISSIONER MANN: Thank you.

30 THE WITNESS: I might say I am not a trained  
mathematician; I have a degree in electrical engineering  
and I have a degree in transportation and economics;







1  
2 that is my background. Now, when the doctors in  
3 mathematics come in and say, "We can solve your problem,"  
4 I say: "That is wonderful"; but I have got to go back  
5 in my own homely way and feel my way through to see that  
6 what they have done/<sup>supported</sup> substantially or reasonably, reality  
7 in so far as I can check it.

8 MR. MAURO: Q. Mr. Mann referred to whether  
9 or not you use multiple regression as supplementary  
10 data, as stated on April 3, 1959, or whether multiple  
11 regression is now the core, and observed data corroborative  
12 and I would like you to tell me and the Commission what  
13 was the basic formula of your study in the Southern  
14 Governor's grain case? Was it Rail Form A adjusted,  
or was it multiple regression?

15 A. That was straight Rail Form A, with some --  
16 well, Rail Form A, as you know, provides for substitution  
17 of certain direct car counts and car days; but that  
18 is . . . .

19 Q. I used the phrase "Rail Form A adjusted".

20 A. Well, Rail Form A adjusted has a special  
21 connotation, because that was used in the Trans-  
continental Divisions case.

22 Q. In the Transcontinental Divisions case did  
23 you use multiple regression as the basic costing  
24 technique, or did you use Rail Form A adjusted and use  
25 multiple regression --if used it at all? To my knowledge  
26 I couldn't find it in your study at all, but I think  
there might have been some supplementary data.

27 A. You started off with . . . . ?

28 Q. We dealt with the Southern Governor's case.

29 A. No; when you started on the Divisions case...  
30





1  
2 Q. The Transcontinental Divisions case?

3 A. Yes.

4 Q. Did you use multiple regression as the basic  
5 technique in that case?

6 A. We used multiple regression as the basic  
7 technique in the area in which we used it -- which was  
8 maintenance of way; maintenance of way only.

9 Q. And what about the balance of the study?

10 A. We used our other test -- our past ex-  
11 perience on the variability of the various elements  
12 of expense.

13 Q. Did you use Rail Form A in the Transcontinental  
14 Divisions case?

15 A. No, we used -- train crews were treated up  
16 to 100 per cent variable; and fuel and locomotive unit miles.

17 Q. I notice, Dr. Edwards, in many of these  
18 cases in which you have given evidence, you refer  
19 frequently to the Interstate Commerce Commission burden  
20 studies and cost scales as providing basic data to  
21 you.

22 A. Yes.

23 Q. Could you explain to the Commission what  
24 these burden studies and cost scales are?

25 MR. SINCLAIR: I object to that question as  
26 not having any relevance to the issue being discussed  
27 and the evidence being put before the Commission.

28 MR. MAURO: It has a great deal of relevance  
29 which I will explain at the time of my argument.

30 At the time the Commission sat in Winnipeg  
it is on the record that the province of Manitoba shall  
make certain recommendations on this matter. Here is a







1  
2 gentleman called as a witness, and part of the  
3 examination that I have put in -- cross-examination --  
4 has been upon the figures arrived at by the ICC burden  
5 study.

6 THE CHAIRMAN: Off the record this has been  
7 discussed.

8 MR. MAURO: And on the record too, Mr.  
9 Chairman.

10 THE CHAIRMAN: Yes; we might get Dr. Edwards'  
11 definition of it.

12 MR. MAURO: Q. Could you explain what the  
13 burden study is?

14 A. Well, I have in my hand the burden study which  
15 is entitled "Distribution of Income Revenue Contribution by  
16 Commodity Group." This burden study represents a  
17 costing under the straight unadjusted rail form proc-  
18 cedure of all carload traffic in the United States,  
19 performed annually, on an out-of-pocket basis and also  
20 on a fully distributed cost basis, distributing the  
21 constant passenger and LCL deficit per ton and ton-mile;  
22 then there are two levels of costing by individual  
23 commodity movements within and between each rate  
24 territory and compared with the respective revenues;  
25 and the amount of revenue in excess of the out-of-pocket  
26 cost is the contribution to burden -- the burden being  
27 those expenses which are not variable with the movement  
28 of an individual car of, we will say, cheese.

29 It provides an area indicating the degree  
30 to which, under the rate structure and the impact of  
the various factors that go into rate-making -- it  
provides a degree to which the revenues equal, or exceed,







1  
2 or, in some cases, fail to equal, the out-of-pocket  
3 cost; or, likewise, the amounts either above or below  
4 the fully distributed cost, both percentage-wise and  
5 in dollar amounts.

6 Q. Thank you, Dr. Edwards.

7 A. And I might say in the adjusting of costs  
8 in the study the rate of return referred to as a whole in  
9 the study is tied back to the amount of actual rate of  
10 the railroads in that year regardless of what it was.

11 When we come to the fully distributed costs  
12 for all the traffic we<sup>would</sup> have equated all the costs with  
13 all the revenue; so that whatever the rate was we  
14 equated it to return so that the relationship would not  
15 be against some given rate of return but against a  
16 dead center of earnings, and we would have an accounting  
17 in the costing for all the expenses and all the revenues  
18 and we tied the two together and said what each  
19 traffic contributed to the amount above the standard  
20 actually earned.

21 Q. Then, I understand that the cost scales are  
22 based on the burden study?

23 A. Well, the burden study is based on the cost  
24 scales.

25 Q. So that the cost scales are a preliminary  
26 study and then the burden study is an analysis of the  
27 cost scales and found in that study?

28 A. It is an application of the cost scales to the  
29 traffic, without any adjustment -- as I referred to in  
30 Rail Form A adjusted and the other studies that couldn't  
be done without costing simultaneously every carload in  
the country.





1  
2 Q. I understand that in the preparation of these  
3 studies Mr. Gilbert Paar assisted you?

4 A. That is right.

5 Q. And I assume that you have found these docu-  
6 ments of great use in your work as a consultant to both  
7 railways and shippers?

8 A. Well, yes; they are a guide, both used and  
9 misused.

10 Q. And have you any personal knowledge that  
11 such studies have injured the carriers in their operation  
12 of business -- from your own personal knowledge?

13 A. Well, that is a difficult question to answer.  
14 There were some objections to these studies by the  
15 carriers to the effect that there would be some mis-  
16 application or misinterpretation by parties.

17 Q. Have you, from your own knowledge, knowledge  
18 of an instance where actual injury has been suffered  
19 as a result of the work that you and Mr. Paar did in  
20 these studies?

21 A. Well, if they suffered they suffered in  
22 silence in so far as I was concerned, except for these  
23 broad observations I have made.

24 MR. MAURO: I think, Mr. Chairman, that this  
25 is, perhaps, a good time spot for the recess.

26 THE CHAIRMAN: Then, we will take the recess  
27 now.

28 --- Recess.

29  
30 (Page 12768 follows)







1 THE CHAIRMAN: Order, please.

2 Before Mr. Frawley starts, I think I should  
3 comment on the fact that this is the last day of service  
4 of my colleague Mr. Balch, service in the railway, and  
5 we wish him many happy years of retirement.  
6

7 COMMISSIONER BALCH: Thank you, Mr. Chairman.

8 MR. SINCLAIR: Mr. Chairman, we who represent  
9 the railways here have known Mr. Balch, and our pre-  
10 decessors have known him, for a good many, many years,  
11 and they have found him an extremely hard bargainer on  
12 occasion on behalf of certain people, particularly the  
13 trainmen.

14 THE CHAIRMAN: You were not disappointed in  
15 that.

16 MR. SINCLAIR: I was always pleased to meet a  
17 hard bargainer, but sometimes I wished he was a little  
18 easier. The men in the railays have held him in  
19 high esteem, and also the management, down through the  
20 years, and to know that he is retiring from active  
21 participation -- I am not fooled by that, because we  
22 know that the people who take his place will rely on his  
23 good judgment and great skills in assisting them in  
24 bargaining with the railways in the future. We do say  
25 to Mr. Balch, like you do, sir, that we wish him ex-  
26 tremely well and we are glad to know that his association  
27 in transportation is going to continue at least for a  
28 few weeks until this Commission is concluded.

29 MR. McDONALD: Unfortunately I was out of the  
30 room when you made the announcement, Mr. Chairman. I





1 understand it is Mr. Balch's last day with the railways.

2 THE CHAIRMAN: Yes.

3 MR. McDONALD: It is quite an occasion. He  
4 has certainly seen a lot of service, and I don't know of  
5 anybody who knows more about the practical aspects of  
6 operating the railway. I wish to convey on behalf of  
7 Canadian National our very good wishes to our friend Mr.  
8 Balch, and I hope he continues to enjoy a little  
9 relaxation, which he deserves, some of the pleasures  
10 of life, and also give him the opportunity to sit on  
11 some more royal commissions.

12 COMMISSIONER BALCH: Well, it was quite a  
13 surprise, Mr. Chairman; I didn't think you were going to  
14 do it, so I haven't anything prepared. But I do want  
15 to say this, that after thirty-one years in the labour  
16 movement I feel that there is a great weight gone off  
17 my shoulders.

18 I might say in reply to the two counsel for  
19 the railroads that I have always tried to cooperate,  
20 even from the local officials up through the higher  
21 officials, and I do feel that I still had a good many  
22 friends from the lowest officer, which isn't very low,  
23 to the top. They have always been my friends and I  
24 have always felt they have been my friends, and whenever  
25 I have met them to discuss problems I have always felt  
26 that we were discussing on an equal basis, and I think  
27 they received me on the same basis as I tried to  
28 receive them.

29 I wish to thank you, Mr. Chairman, and the  
30 two counsel for addressing those remarks.





1 MR. SINCLAIR: I think it should be recorded  
2 before Mr. Frawley starts that, with arrangement, Mr.  
3 Mauro was keeping another commitment and he hasn't  
4 completed his cross-examination.  
5

6 THE CHAIRMAN: Yes, Mr. Mauro will continue  
7 after Mr. Frawley finishes.

8 MR. FRAWLEY: I was very glad to note the  
9 commendation that came to Mr. Balch from his friends in  
10 the railway. I only want to say, sir, that you  
11 referred to the many years he had spent in service of  
12 the Brotherhood. I hope he will not have to spend too  
13 many years in solving the problem of what is wrong with  
14 Canada's freight rate structure, and I hope that  
15 whatever he does he will not lose those good friends  
16 in the railways and in the rest of the country.  
17

18 CROSS-EXAMINATION BY MR. FRAWLEY:

19 Q. Dr. Edwards, where did the idea that  
20 grain moving to export positions in western Canada should  
21 pay fully distributed costs? Did that come from you  
22 or had that decision been arrived at when you arrived  
23 here?

24 A. The work as to what the appropriate and  
25 proper grain rate should be in terms of a rate structure  
26 and the factors that enter into rate making ---

27 Q. I didn't hear that last phrase.

28 A. --- and the factors that enter into  
29 rate making had been going on under Mr. Roberts'  
30 direction and his staff, I am sure, simulataneously,







1 and perhaps previously, too -- I don't know -- with the  
2 work on the costs, and he found, and I presume the same  
3 is true with the C.N.R., that one cent a ton mile was  
4 an appropriate and proper and reasonable rate to submit.  
5 Now, whether they knew what full costs might be at that  
6 time, I don't know.

7  
8 Q. I don't follow you. You say that one  
9 cent a ton mile was arrived at as what a proper rate  
10 should be?

11 A. You are asking how was a proper rate  
12 derived. Was that not your question, Mr. Frawley?

13 Q. No. Perhaps I have misled you entirely,  
14 Dr. Edwards. I simply wanted to know whether or not  
15 it had been decided before you came in as the adviser  
16 that fully distributed costs would be put up as the  
17 proper rate for the C.P.R. to receive, or whether or  
18 not you made the suggestion to them. That is all I  
19 was thinking of in that preliminary question. Did it  
20 come from you, or did you find that it had been already  
21 arrived at when you got to Montreal to consult with  
22 these people about their cost study?

23 A. Well, let's see. Your question is why  
24 did they decide that fully distributed costs was a  
25 proper rate?

26 Q. That is right.

27 A. Well, that decision wasn't made solely  
28 on cost considerations. Now, the fully distributed  
29 costs come out close to the rate that the rate people  
30 thought was appropriate.





1 Q. We live and learn. Did the Canadian  
2 Pacific have in mind a rate before they did a cost  
3 study of one cent a ton mile? You mentioned Mr.  
4 Roberts. Are you referring to J. M. Roberts who has  
5 recently been made vice-president?  
6

7 A. I am referring to the Mr. Roberts who  
8 has testified here, vice-president of general traffic.  
9 I have his precis here. I can't give you his initials  
10 at the moment.

11 MR. SINCLAIR: J. M.

12 THE CHAIRMAN: It is the same man.

13 MR. FRAWLEY: Q. I would like to know if  
14 the Canadian Pacific -- did you understand that the  
15 Canadian Pacific, before they did a cost study at all,  
16 had settled on one cent a ton mile as a proper rate?

17 A. I don't know. The determination of a  
18 proper rate is a traffic man's function. I don't know;  
19 I can't tell you when Mr. Roberts decided, came to his  
20 conclusion. You have no doubt read his precis and  
21 the basis for his conclusions. I didn't have any  
22 consultations with Mr. Roberts throughout this cost  
23 study. I don't recall meeting him until we had been  
24 spending a great deal of time on the cost study.

25 Q. That wouldn't surprise me. I just wanted  
26 to know whether your understanding was that Mr. Roberts  
27 or Mr. Edsforth or anyone else had arrived at the  
28 fact that one cent per ton mile was an appropriate rate  
29 to move grain to export positions in western Canada  
30 before they decided to do a cost study?







1 A. I don't know. I can't tell you the  
2 sequence.

3 Q. You are not going to hold with the fact  
4 that -- because I did understand you to say, but I may have  
5 misunderstood, that one cent a ton mile was arrived at  
6 as a fair rate and it was arrived at before a cost study  
7 was done?

8 A. I would think they would want to weigh  
9 and have a look at the costs, I presume; that would be  
10 a natural thing. But as to how their minds ran and  
11 the sequence of their decisions, you would have to ask  
12 them.

13 Q. At any event, when you arrived here were  
14 you advised then that the figure of one cent a ton mile  
15 was what my friend Mr. Sinclair calls it, a just and  
16 reasonable level of rate to move grain to export posi-  
17 tions in western Canada?

18 A. Not to my knowledge. I am uninformed.

19 Q. Well, I put it to you that you didn't  
20 advise the Canadian Pacific to set a rate which would  
21 return their fully distributed cost?

22 A. No, sir. I usually don't advise  
23 traffic people -- I mean, speaking frankly.

24 Q. But that would be an unacceptable situa-  
25 tion, would it not, Dr. Edwards, to fix the rate at  
26 which to move grain in western Canada at fully distri-  
27 buted costs?

28 A. You mean to look solely at fully dis-  
29 tributed costs and say this would be the rate? Is that  
30





1 your point?

2 Q. No. My point is that you would not  
3 find it a proper piece of advice to give them, to take  
4 out their rate at fully distributed costs?

5 A. Considering cost alone. Well, Mr.  
6 Frawley, there are various classes of traffic that move  
7 close to that. There was the anthracite moving close  
8 to fully distributed cost. I am sure when those  
9 anthracite rates were made, throughout the history of  
10 them nobody heard of fully distributed costs. When  
11 they came along with the study it so happened that the  
12 rate for one of the commodities that moved was close  
13 to it. Now, those rates were the result of historic  
14 factors one hundred years old.

15 What I am getting at here, and it is perfectly  
16 in line with everything I said yesterday, that there  
17 are other factors involved, and I wouldn't advise  
18 anyone: look, see; I have fully distributed costs, and  
19 in the vacuum say, now, that should be your rate.

20 Q. I put it to you more strongly than that,  
21 that you would have said to the Canadian Pacific Railway:  
22 "I will not support any attempt to move the grain in  
23 western Canada at fully distributed costs." I put it  
24 to you that that is what you would have said, if they  
25 told you they were shooting at fully distributed cost?

26 A. And without any benefit and advice as  
27 to economic matters and considerations. In the vacuum  
28 related solely to cost, I would not have.

29 Q. You would not support, I put it to you,  
30





1 fully distributed cost as the proper basis for fixing  
2 the rates on export grain in western Canada. I put it  
3 to you that you would not do that. Am I right or am  
4 I wrong?

5 A. In view of considerations which Mr.  
6 Roberts has set out in the rate structure, I would  
7 recommend that the rate be set at close to fully dis-  
8 tributed cost, based upon the factors that he has set  
9 out and the proposals herein. But that wouldn't be  
10 based solely upon the computations for cost.

11 Q. What were the considerations present in  
12 Mr. Roberts' mind that would justify fully distributed  
13 cost?

14 MR. SINCLAIR: Well, we don't have to guess  
15 what was in Mr. Roberts' mind. His evidence is before  
16 the Commission, in my respectful submission.

17 MR. FRAWLEY: I am cross-examining a witness  
18 who said that because of what was in Mr. Roberts' mind  
19 he would advise fully distributed costs, and I am en-  
20 titled to know, on the record, what those things were.

21 THE CHAIRMAN: Did he give them to him?

22 THE WITNESS: Those considerations -- and I  
23 am referring to Mr. Roberts' precis on pages 13, 14,  
24 15, 16, 17, 18, 19 and 20.

25 MR. FRAWLEY: Q. Are you referring to the  
26 historical reasons, the history of the Crow rates and  
27 what percentage they were of the old 8th Class rate  
28 and that sort of consideration? Is that what you are  
29 talking about?  
30







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Edwards, cr-ex  
(Frawley)

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1                   A.    No.    This is beyond the history. But  
2 they do involve the rate changes that have been made  
3 in other traffic since 1899 or 1900 up to date. They  
4 involve a reference to domestic scales of rates,  
5 specific rates to move grain to export positions.  
6  
7  
8  
9  
10  
11  
12  
13  
14

15                                   (Page 12778 follows)  
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18  
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27  
28  
29  
30





1  
2 Q. Its relationship with the grain rates, to the  
3 8th class rate in 1927 and in 1899, those are the  
4 considerations you are talking about?

5 A. That is right. I am not spelling out  
6 anything that is not in here.

7 Q. And when did you first know that Mr. Roberts  
8 was putting forward these reasons? How long before  
9 he went into the box did you see his precis?

10 A. Oh, I had these precis in proposed form  
11 quite some time ago prior to the completion of my  
12 studies or my reference.

13 Q. Is another consideration the comparison  
14 of the rates, the published rates in western United  
15 States as against western Canada, is that another  
16 consideration?

17 A. That was another consideration.

18 Q. Those are the considerations?

19 A. And the increases in relationship that have  
20 prevailed from the center points of the grain pro-  
21 duction to the Lakehead, first Winnipeg and later  
22 Regina, although we used the Winnipeg relationships.

23 Q. Was there any value-of-service concept in  
24 the proposition that the export grain rates in western  
25 Canada should bear fully distributed costs

26 A. Just a moment, Mr. Frawley. He also dealt  
27 with the problem that this grain constituted an enormous  
28 proportion of the whole of the traffic in western  
29 Canada, some 45 per cent of the transportation service  
30 rendered in western Canada, and I think some 40 or 42  
per cent of the total revenue ton-miles.

So what happens to grain rates has an enormous







1  
2 impact on the revenues and earnings and compensation  
3 that the Canadian Pacific receives on its western lines  
4 in doing its transportation job.

5 He dealt with the fact that grain is not  
6 an incremental traffic in western Canada and in no  
7 sense is it a by-product, it is a basic traffic.  
8 The plant to a very large degree was built with its  
9 network of branch lines to serve the output of the  
10 western prairies which is very heavily grained.

11 Q. When you are finished going over Mr. Roberts'  
12 precis, just let me know.

13 A. He also noted that there is a wholly dis-  
14 proportionate amount of work performed on the grain  
15 in relation to the freight revenues received. They  
16 constitute 26.2 per cent of the total revenue ton-  
17 miles but produce only nine per cent of the revenues.

18 He refers to the adjustments that have been  
19 made in the rates on other traffic and on domestic  
20 grain.

21 THE CHAIRMAN: We do not want to go into all  
22 those.

23 MR. FRAWLEY: Q. I ask you, was there any  
24 value-of-service concept left when it was decided to  
25 seek to put the grain rates at fully distributed costs,  
26 100 per cent of fully distributed costs?

27 A. Was there any value of service?

28 Q. Was there any value of service concept left  
29 when you fixed the rates on a fully distributed cost  
30 basis?

A. I don't really understand the question. Value  
of service left there is the value of service





1  
2 consideration in that decision. I do not know what  
3 you mean by "left-overs".

4 Q. Well, value of service takes into account  
5 the demand considerations, does it not?

6 A. Yes sir.

7 Q. Now, this is what you said, Dr. Edwards, when  
8 you were addressing the fifth Institute of Industrial  
9 Transportation and Traffic Management at the American  
10 University on 21st January, 1953.

11 A. What page?

12 Q. Page 8 of the mimeographed copy that I have.

13 " In my opinion the concept of fully distributed  
14 costs serves a very useful purpose where  
15 territorial cost comparisons are desired  
16 such as in the Class Rate Investigations  
17 or in Division cases. In such proceedings  
18 the thing desired consists of comparative  
19 total costs per unit of traffic, with the  
20 figures divorced from any value of service  
21 considerations. The 'fully distributed'  
22 costs provide this. Rate-making, however,  
23 is something else again and the utility of  
24 such figures in this instance is limited  
25 for the very reason that they are divorced  
26 from any demand considerations."

27 I put it to you that when the Canadian  
28 Pacific ask for fully distributed costs, they are  
29 turning their back on the value of service principle  
30 entirely.

31 A. Is that a question or ...?

32 Q. Yes, that is the question. From now on,





1  
2 Dr. Edwards, so that my friend will not be disturbed,  
3 I sometimes put my question to you in the form of  
4 statements and then I use the rising inflexion  
5 at the end, so that means it is a question and you  
6 can regard it as such.

7 A. I am glad to get that key.

8 MR. SINCLAIR: Every time his voice rises  
9 it is not a question.

10 MR. FRAWLEY: Every time my friend rises  
11 my voice rises, and I do not know how much longer it  
12 is going to be able to continue to rise. After ten  
13 years it is pretty difficult.

14 Q. Dr. Edwards, I put it to you that these things  
15 are not compatible. If you want fully distributed  
16 costs then you are ignoring value of service?

17 A. And I say that is not correct.

18 Q. You say that is not correct. Now, yesterday  
19 you said this to Mr. Mauro at page 12625. I had  
20 better read the whole of Mr. Mauro's question starting  
21 at page 12624:

22 " Q. What does it do to you as a rate-maker --  
23 and that is your position here and you are  
24 described and properly described as an expert  
25 on this rate-making, and if you were sitting  
26 down, if you were still in the cost section  
27 of the ICC, coupled with a demand for a  
28 specific rate, and you would have to determine  
29 whether it was a just and reasonable rate,  
30 you would assess whether or not the farmer  
could pay this rate and would you come to  
the conclusion that fully distributed costs,







1  
2 " the full costs as suggested by the railways,  
3 was a just and reasonable rate?"

4 And your answer was:

5 " I would appraise it in the light of the  
6 appraisal made and I would ask myself the  
7 question: will this traffic continue to move  
8 under this proposal? -- and I assume it will  
9 continue to move because the rate is not going  
10 to be borne, the increase under the proposal,  
11 by the shipper-farmer or by the buyer."

12 That was the answer you made yesterday. Now, you  
13 are aware that if the farmer was asked to pay fully  
14 distributed costs the traffic would not move. You  
15 do not differ from that do you?

16 A. No, the farmer would have difficulty main-  
17 taining his volume under the pricing conditions under  
18 which he operates, and I understand the world prices  
19 here of wheat back up against the farmer; there is  
20 no parity or protection between the grower and the  
21 foreign market as there is in the United States.

22 In that case the grain producer in the  
23 United States can pay the going freight rate without  
24 difficulty because he has that protection, and if  
25 there are losses to be borne they are in effect borne  
26 by the federal government through its subsidies and  
27 taking grain off the market, so that it won't depress  
28 their prices, and that whole program which they do  
29 not have in Canada.

30 Now, I understand in Canada the government  
markets the grain, the major grains, and the effect is  
that the result of depressed or insufficient prices, we





1  
2 will say, unlike the United States, would back up  
3 and does back up to the farmer: so that farm relief  
4 in Canada takes the form of depressed freight rates,  
5 with the burden falling not on the federal government  
6 or the citizenry generally of the country, but falls  
7 on those who supply the service.

8 So that coming back to your initial question,  
9 I cannot deny that the imposition of the one cent  
10 per ton-mile, revenue ton-mile rate, as in contrast  
11 to the something around 4 or 5 mills. (close to 5  
12 mills.) would work a burden upon the farmer, and it  
13 would probably drive out the marginal farmer and  
14 curtail some of the movement.

15 Now, in appreciation of that, I also took  
16 into account with the proposal herein, my statement  
17 herein and my conclusions drawn in my precis were  
18 based upon the burden of this, in effect, sub-  
19 sidization being shifted from the railroads to another  
20 body, to the Dominion Government, and that in such  
21 case this grain would continue to move. But if that  
22 were not the case, I would expect the imposition of  
23 the one cent rate would have an adverse effect upon  
24 the movement of the grain. I do not know what that  
25 would be because I have not contemplated that situation.

26 COMMISSIONER MANN: Dr. Edwards, does that  
27 mean that you are in principle supporting the  
28 equalizing of economic conditions by way of the  
29 freight rate structure?

30 THE WITNESS: No, I am just not supporting  
the proposition that seems to me most abhorrent, that  
a carrier be expected in the year 1960 to sell its







1  
2 services at the rates of 1899. That to me is a most  
3 astounding situation and it is the relief of that  
4 that I look to in its narrower framework.

5 COMMISSIONER MANN: You see, you just gave  
6 a comparison between what was done about grain in  
7 the United States and what was done about grain in  
8 Canada.

9 THE WITNESS: Yes.

10 COMMISSIONER MANN: You told us that in the  
11 United States the farmer can pay more because the  
12 government looks after him in a way that is not the  
13 case in Canada?

14 THE WITNESS: Yes.

15 COMMISSIONER MANN: But here when you come  
16 to the conclusion that you could support a rate based  
17 on fully distributed costs, it is inextricably bound  
18 up with a proposal to have the government do by way  
19 of the freight rate structure what the government of  
20 the United States does by way of other means. Now,  
21 my question is simply this. Does that mean that  
22 generally you are in support of the equalization or  
23 the adjustment of economic conditions by way of  
24 the freight rate structure, which is what you have  
25 come to in this case?

26 THE WITNESS: Well, that goes into a  
27 sociological question that I have not given study to,  
28 and I do not know that I am the proper person to  
29 reach into that. It has its ramifications.

30 COMMISSIONER MANN: But in this case, Dr.  
Edwards, you are supporting that principle with regard  
to the movement of Canadian grain to export positions,





1  
2 you think that the government can and should  
3 justifiably deal with the a general economic situation  
4 by way of the freight rate structure?

5 THE WITNESS: Yes, sir. I would like to  
6 narrow it this way. I do not like to use strong  
7 language, but I feel in a sense outraged that any  
8 private company in the economy should be asked to  
9 give out in a large, tremendous area of western Canada,  
10 some 45 per cent of all its services at the rates of  
11 1899. I never heard of such a thing.

12 But be that as it may, and with the rate  
13 of return to the carriers as a whole, despite all its  
14 other interests, being at 2.7 per cent and its  
15 securities, we will say, selling at 50 cents on the  
16 dollar, and with higher grade traffic no longer having  
17 the ability to pay and trucking and others going in  
18 and taking away that traffic, you would reach over  
19 for this high elasticity of transportation -- and  
20 the crisis or the situation getting worse, because  
21 costs are going steadily upward, railroads costs  
22 and the wage demands keep edging up: so where does  
23 the thing end?

24 It seems to me perfectly irrational that  
25 in the dilemma which is not the fault of farmers and  
26 not the fault of the railroads, it has world-wide  
27 implications, international implications and has  
28 created in the United States tremendous problems,  
29 politically, monetarily and otherwise, that the  
30 pressure should be all focused on a private company.

In any event, you asked me, do I think  
it reasonable. I think it reasonable for those





1  
2 reasons, but I have not gone into the far-reaching  
3 sociological implications of using freight rates to  
4 adjust the economy. I think that is already going on  
5 here, using 60-year-ago freight rates to achieve  
6 economic results; but if that is the desire of the  
7 Dominion of Canada and it is good for Canada, why,  
8 God bless it, do it, but I think the burden should  
9 be distributed in a little better fashion.  
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18 (Page 12787 follows)  
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1 COMMISSIONER MANN: In the American context  
2 you would not recommend such a solution, would you --  
3 against the American experience?  
4

5 THE WITNESS: Oh, no; that has created all  
6 sorts of by-product troubles.

7 COMMISSIONER MANN: Thank you very much.

8 MR. FRAWLEY: Q. Dr. Edwards, I would judge  
9 from your interchange with Commissioner Mann that you  
10 approached this purely cost matter charged with a cer-  
11 tain amount of emotion for the Canadian Pacific; is that  
12 a fair thing to say?

13 A. Well, did my voice rise?

14 Q. I don't know whether you raised your  
15 voice when you mentioned "outrage", but you were out-  
16 raged either with or without a rising inflection.

17 A. Well, every time my friends ask me why I  
18 am spending so much time in Canada I tell them I am  
19 working on the Crow's Nest rates, and they say, "What  
20 is wrong with the Crow's Nest rates?", and I say,  
21 "They are still at the 1899 level," and their reaction  
22 is, "My God!" I can't help but absorb a little of  
23 that. However, my approach was scientific in not  
24 entirely based on multiple regression. I tried to  
25 remain calm.

26 MR. FRAWLEY: Mr. Chairman, I am certainly  
27 not going to go into a digression to discuss all the  
28 pros and cons of the agreement of 1897.

29 Q. Do you know that the Canadian Pacific  
30 accepted certain burdens of reduced rates on westbound





1 commodities which they were forgiven some years  
2 afterwards? Do you know that also entered into the  
3 1897 agreement?  
4

5 A. What do you mean "forgiven"? Do you  
6 mean the rates were reduced? I don't know what you  
7 mean.

8 Q. You have not, perhaps, read the 1897  
9 agreement itself?

10 A. No, sir, I haven't read the technical  
11 agreement.

12 Q. Well, I just wanted to read the next  
13 paragraph from page 8 of this paper of the 21st of  
14 January, 1953:

15 "Furthermore, the concept of non-differential  
16 pricing as a guide to rate making is a very un-  
17 real one ---"

18 A. Pardon me; I haven't got that. Where  
19 is that?

20 Q. Page 8, and it is the paragraph immedia-  
21 tely following the one I just read.

22 A. Are you reading from the transcript?

23 Q. No, no; I am reading from the paper.

24 A. Well, I haven't found that yet.

25 Q. There is a paragraph which starts,  
26 "In my opinion the concept of fully distributed  
27 costs . . ." on page 8.

28 A. Yes, I have it now.

29 Q. All right, now. I am just continuing  
30 to read:







1  
2 "Furthermore, the concept of some differ-  
3 ential pricing as a guide to rate making is a  
4 very unreal one. As will be shown in the  
5 figures to follow, Appendix A, nothing moves  
6 at fully distributed cost. Indeed but a  
7 limited amount of rail traffic in the United  
8 States moves at rates approaching this level.  
9 To apply fully distributed costs as a measure  
10 of rates would mean reducing by about one-third  
11 the rates on the higher grade traffic. As  
12 this traffic is presumed to have a relatively  
13 inelastic demand there would be no compensatory  
14 increase in volume. Conversely, on all the  
15 remaining (volume-moving) traffic rate increases  
16 of about one-third would be required to bring  
17 them up to the level of the fully distributed  
18 costs. No doubt much of this latter traffic  
19 would dry up in the process.

20 "While the application of fully distributed  
21 costs as a basis for rates would no doubt eliminate  
22 rate discrimination, there is little doubt but  
23 that it would also eliminate the railroads as  
24 we know them today."

25 That was what you thought about using fully distributed  
26 costs as a basis for rate making in 1953?

27 A. Yes. Many rates, as I have already  
28 said, in groups cluster close to the dead centre point;  
29 that is inevitable. But they cluster there not because  
30 a statistician went out and made a ton and ton mile





1  
2 apportionment. They cluster there because of  
3 economic considerations and rate making factors, and it  
4 is inevitable there be some degree of clustering.  
5 However, all I was doing in writing this was fighting  
6 the battle I continuously and always run into, except  
7 among traffic men themselves -- that, "Let us simplify  
8 the whole rate making process and set rates on fully  
9 distributed costs."

10 Q. If you will look at page 16, I have a  
11 few more short paragraphs for you there. You state  
12 this -- and I am starting at the bottom of page 15 to  
13 give it a little better context:

14 "The deviations of the figures in Appendix  
15 A, column (5) . . ."  
16 Column 5 is the column which shows the per cent of  
17 revenue as a per cent of fully distributed costs; that  
18 is right, isn't it?

19 A. Yes, sir.

20 Q. "The deviations of the figures in Appendix  
21 A, column (5), from index 100 represent the  
22 amount of rate discrimination or differential  
23 pricing present today in the rail rate structure.  
24 Stated differently, if all rate discrimination  
25 were absent, all figures in column 5 would  
26 stand at 100 (per cent). The chaotic  
27 effect of the adoption of non-differential  
28 pricing in rail rate making can easily be  
29 imagined."

30 Then, the next paragraph:





1  
2 "Despite the fact that all that has been  
3 said above has long been recognized by rail  
4 traffic men, I do not believe that I have  
5 been on the witness stand at any time in the  
6 past two to three years but that opposing  
7 counsel has not raised the issue of applying  
8 fully distributed costs as the proper measure  
9 of a freight rate. Needless to say, the  
10 question usually leaves me momentarily wordless."

11 But, you are quite satisfied today here in  
12 these proceedings to support the Canadian Pacific in  
13 seeking to fix the western grain rate on fully dis-  
14 tributed cost; that is true, isn't it?

15 A. Well, you will have to take this at a  
16 slower pace because I am not getting my theme across.  
17 If I were making rates I would start high or low or  
18 I would start somewhere. Let us say we start at the  
19 out-of-pocket level, and say the out-of-pocket costs  
20 were \$1 a ton -- just for a numerical figure -- and I  
21 would say, "Well, I am simply breaking even there. I  
22 have got all this payroll and taxes and other debts  
23 I have to make, and the variable fuel expense. I have  
24 got to get that money back." So, I say, "I will add  
25 10 cents and make the rate \$1.10." Then I go out  
26 and look at the market situation and I find that I  
27 would move, let us say, one thousand tons of this  
28 commodity "X", and I would say, "Nothing to it; but  
29 10 cents won't get me anywhere. I have got to get  
30 much more than that as a whole. If everything moved







1 at that, we would be out of business right away."  
2 So, I go to \$1.20 and \$1.30, and sort of set up a  
3 demand schedule for transportation, and I keep climbing,  
4 and I would look at the market situation and all the  
5 economic situations, and I would say, "How many tons  
6 am I getting at \$1.40?", and I find I am getting  
7 199 tons -- I have only lost a ton, and I would say,  
8 "That is wonderful. Let us not stop there." So,  
9 I go to \$1.50 or \$1.60. Let us say fully distributed  
10 cost is \$1.50, and then I would look about and send  
11 my market analyst out and appraise the competitive  
12 situation and see how many tons we are going to get  
13 at that price. They would come in and tell me, "You  
14 are going to get about 900 tons," and I say, "My  
15 goodness, this demand is pretty inelastic. Let us  
16 keep going." We know roughly as many tons have to  
17 move above or below fully distributed cost to break  
18 even. So, we keep on going.  
19  
20  
21

22 (Page 12800 follows)  
23  
24  
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1  
2 Now, somewhere around, we will say, \$1.80 we  
3 have a break through and commodity "X" is sometimes  
4 moved by pipeline, as the coal people found between  
5 Pennsylvania and the lake plants; so in this  
6 study suddenly we got up close to the cost - the  
7 alternative cost. I am not going to get my 900  
8 tons; I am only going to get about 200 tons; and  
9 I say: "That is too high." Back we come. So I  
10 find the level in there.

11 That is making rates based upon the effect of  
12 the rate on the movement in traffic. Now, you  
13 might say in this Canadian situation on wheat that  
14 if the dominion government - if you assume the  
15 dominion parliament is going to assume this burden...

16 Q. Why don't you assume the opposite, Dr.  
17 Edwards? Just leave it to the farmer out there to pay  
18 the rate. Make the proper rate that the farmer is  
19 willing to pay.

20 I would like you to assist the commission  
21 and I would like to ask you as to what the rate would  
22 be, if, for example the Governor-in-council should tell  
23 us today: "We are not going to contribute anything  
24 to help move grain in western Canada," and see what  
25 your opinion would be as to what the rates should  
26 be, just for the sake of answering my question. Just  
27 assume that there will be no contribution from the  
28 federal government.

29 A. You interrupted my answer, and, if I may -  
30 I won't be long - I would like to continue and then I  
will come back and answer Mr. Frawley. He wanted  
a basic explanation, and he misinterpreted well nigh  
everything I said yesterday when I talked about







1  
2 approval of a rate. He has a misunderstanding as  
3 regards the cost study and that misunderstanding  
4 persists in the court room here, and that is why  
5 I am trying to clear it up; it is very vital that  
6 I clear it up. And then I will come back to your  
7 problem.

8 We were up to \$1.70, and that was the  
9 point at which you maximize your contribution. Beyond  
10 that the industries can move by pipeline or truck.  
11 That would be, in one sense - this is the effect  
12 of the rate on the movement of traffic - this would  
13 be the economic rate. Now, I approach the question  
14 hypothetically, if this is a foreign wheat situation,  
15 and one might say, if you assume that the Dominion  
16 government is going to bear this burden, "Why stop  
17 there"? I am making the assumption now, and that  
18 is the situation. Why don't you go up to \$2.00 and  
19 \$2.50? That ignores a very important factor in  
20 rate-making - that is consistency of the rate to  
21 the rate structure as a whole and rate-relationships.  
22 When a railroad has got traffic of high inelastic demand -  
23 it is sometimes called captive traffic - they cannot  
24 look at other data because of that factor and  
25 project the rate-relationship of that rate consideration  
26 as to haul and the class rate structure it  
27 must be tied back to this. So you have that very  
28 important ceiling in rate-making that interposes,  
29 and that is the ceiling that has been interposed on  
30 rate-relationship and rate-making considerations;  
and the rate adjustments that have been made since  
1899, and some other topics - it seems to me it is  
a very common sense consideration. So that those





1  
2 factors have been the factors that have brought this  
3 one cent into focus as the basis.

4 Now, you have a supplementary question, Mr.  
5 Frawley.

6 COMMISSIONER MANN: Before you continue may  
7 I raise one point? When you talk of the elasticity  
8 of demand you measure it against the existence of  
9 ultimate facilities for transportation; but just  
10 at the latter part of your answer you brought in  
11 capital industries. Is there also a measurement  
12 to be taken against the drying-up of the traffic?  
13 You would take ~~that~~ into consideration when looking  
14 at what rate to charge - that the traffic might dry  
15 up at certain levels because industry might not be  
16 able to sell its products because the freight rate  
17 content might get out of hand.

18 THE WITNESS: When I spoke of elasticity of  
19 demand on transportation by rail I had in mind that  
20 there comes a point where the market really determines  
21 it.

22 COMMISSIONER MANN: You didn't bring it out. You  
23 mentioned truck and pipeline.

24 THE WITNESS: Yes; and that happens on coal.  
25 Coal cannot move sensibly by trucks; it just isn't  
26 economic over certain mileages; but it is the  
27 market situation. It is domestic oil, foreign oil  
28 and gas that does it, you see; and that is a factor  
29 in the elasticity of your demand for railway  
30 transportation.

COMMISSIONER MANN: Thank you very much.

MR. FRAWLEY: I want to put to you two or three  
more of your comments on fully distributed costs,





1  
2  
3 Mr. Edwards, and I will now ask you to allow me to  
4 read to you from a volume called "Cost and the Value  
5 of Service in Rate-making for Common Carriers". It  
6 is a reprint of articles previously appearing in the  
ICC practioners' journal, dated May 1951...

7 MR. SINCLAIR: There is a question that hasn't  
8 been answered. Dr. Edwards started to answer and  
9 said to Mr. Frawley that he had this question and  
10 then Mr. Mann came in, and I think he had to complete  
11 his answer to Mr. Frawley's question.

12 THE CHAIRMAN: We will adjourn until 2:00  
o'clock.

13 ---Luncheon adjournment.  
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1 ---On resuming at 2.00 p.m.

2  
3 Q. (Reporter reads).

4 A. Well, under that set of conditions, Mr.  
5 Frawley, I would judge that normal rate making and  
6 market factors would apply ---

7 Q. Normal rate making?

8 A. Rate making and market factors would  
9 apply as they affect the making of the railroad prices.  
10 Out-of-pocket costs on this traffic is somewhere in  
11 the neighbourhood of  $7\frac{1}{2}$  mills a ton mile. The traffic is  
12 a very large portion of the whole. I would believe  
13 that if I were the traffic manager of these railroads  
14 and had the evidence before me that I now have and  
15 followed the usual considerations of trying to make the  
16 maximum contribution to my burden, that I would contem-  
17 plate a rate somewhere in the neighbourhood of one cent  
18 per ton mile as is now done. I would contemplate that  
19 there would be possibly some loss in traffic; there  
20 would be, no doubt, some hardship upon the shippers  
21 that does not now exist in bearing that rate. There  
22 must be some play around that present level, a mill or  
23 so, but I would certainly want to recover some sig-  
24 nificant margin above my out-of-pocket costs to meet  
25 the share of the burden of the constant cost. You  
26 could lose a substantial amount of grain traffic and  
27 still be better off at one cent a ton mile than you are  
28 at half a cent a ton mile, losing some \$17 million  
29 out-of-pocket. So that those are the factors if we  
30 get down to, let's say a fair conception of this problem.





1  
2 It is conceivable that that situation should  
3 exist. The government might find some other additional  
4 or other method of giving relief to the farmers if  
5 hardship resulted, but it is the rate maker or price  
6 fixer who is responsible for the recovery of revenue  
7 requirements. I would be working within fairly sharp  
8 limitations myself.

9 Q. It just went through my mind when you  
10 were speaking why the Canadian Pacific Company doesn't  
11 do what you are saying. Why didn't they do just what  
12 they say?

13 A. Well, who would they go to?

14 Q. Just do what they say. Why wouldn't  
15 they do just as you say?

16 A. Well, I don't know how effective the  
17 statutes of the Dominion Government are. Does that  
18 mean you go to jail? That is the problem. I don't  
19 know how to answer your question.

20 Q. You feel that the rate could be and should  
21 be at one cent per ton mile if there was no national  
22 assistance at all, no federal assistance at all, and  
23 I am only saying why isn't that the proposal by the  
24 Canadian Pacific Railway, seeking, of course, some  
25 change in Section 328 of the Railway Act, but no  
26 more than just permitting them to be free to set the  
27 rates at what they want and then fix it at one cent  
28 a ton mile?

29 A. You are asking me what I would do, and if their  
30 minds run the way mine does, you would face the problem







1  
2 any practical traffic manager, or any firm who prices  
3 his products, and there might be some play around that  
4 figure of one cent, but there couldn't be very much of  
5 a play.

6 Q. If there was no question whatever of  
7 any federal subsidy entering into this matter at all,  
8 and if your task was to arrive at the point above  
9 variable cost at which the export grain should be  
10 fixed, would you put it at 200 per cent of the variable  
11 cost?

12 A. And there is no question about the  
13 Dominion government granting this relief?

14 Q. That is right.

15 A. I put it 200 per cent above; in other  
16 words, up around, say, a mill and a half.

17 Q. Not a mill?

18 A. A cent and a half.

19 Q. No, half a cent a ton mile?

20 A. No, that isn't variable cost.

21 Q. What are you calling variable costs?  
22 I thought variable costs were about half a cent a  
23 ton mile.

24 A. No. That is the present rate which  
25 occasions a deficit in relation to costs of some  
26 \$17 million.

27 Q. I understood you came out with half a  
28 cent a ton mile. I thought that is what it came out  
29 to. Would you fix it at -- what it would be --  
30 180 per cent of variable? I am not very quick on





1  
2 these figures and somebody, Mr. Bandeen or Mr. Stenason,  
3 can fill in the arithmetic.

4 A. Well, it is the relationship of 33 mills  
5 over 77 mills. I don't have a slide rule here.  
6 Call it 30; 33 per cent, maybe, in that area, above the  
7 variable cost.

8 Q. Thirty-three per cent. I am talking  
9 about a figure of variable cost. I called it 200  
10 because I was using a cent, which you want, fully  
11 distributed, and half a cent that your variable cost  
12 is.

13 A. If that relationship is about ---

14 MR. SINCLAIR: We will take 130.

15 THE WITNESS: The index 130. That is the  
16 way you want it expressed, I think.

17 COMMISSIONER ANSCOMB: How is it 130 if  
18 your variable is 77?

19 THE WITNESS: One cent divided by .77.

20 COMMISSIONER ANSCOMB: You are putting it  
21 on, not taking it off?

22 MR. SINCLAIR: On.

23 MR. FRAWLEY: Q. Now, Mr. Edwards, would  
24 you mind looking at the paper that you gave in  
25 Washington on the 21st of January, 1953, and there is  
26 an appendix there, Appendix A.

27 I would offer this Appendix A as an exhibit.

28 THE CHAIRMAN: Filed as No. 141.

29 MR. SINCLAIR: This is the document that  
30 has been referred to before, Mr. Frawley?





1  
2 MR. FRAWLEY: 21st of January, 1953.

3 ---EXHIBIT NO. 141: Appendix A to Cost Standards  
4 and Rate Discrimination.

5 MR. FRAWLEY: Q. Before I ask you anything  
6 about that Appendix A, Dr. Edwards, are you able to  
7 tell me what the contribution would be in dollars if  
8 you put the grain rate at 100 per cent of variable  
9 plus some small contribution to overhead?

10 MR. SINCLAIR: I wonder if counsel could  
11 help by defining "small". Does he mean by that 2.5  
12 mills?

13 MR. FRAWLEY: If I hadn't been denied a  
14 burden study, and if it hadn't been called all the things  
15 it was called by my learned friend during the course  
16 of his denial, in which I must admit up to now he has  
17 been supported by the Commission, I might have been  
18 able to have selected some of his traffic and then  
19 compared some of his traffic with the grain and then  
20 picked out a percentage above 100 per cent of  
21 variable, which might be a proper rate for grain.

22 MR. SINCLAIR: Maybe we could assist  
23 in this way, by taking the averagerevenue per ton mile,  
24 for instance, in Canada, in the year 1958, on agreed  
25 charges and use that as the basis over 75 per cent as  
26 counsel's definition of "small". That would mean a  
27 rate per ton mile of around, let's say, 2.75 and  
28 3 cents per ton mile. Would that be so?  
29  
30







1  
2 MR. FRAWLEY: I wonder what is the word  
3 one applies to that observation?

4 MR. SINCLAIR: Helpful.

5 MR. FRAWLEY: I am putting it to you, of  
6 course, very seriously, Dr. Edwards, that if you got  
7 from grain, this basic commodity, that moves our grain  
8 to export positions in western Canada, if you got one  
9 hundred per cent of your variable and very little more,  
10 just enough more to satisfy the definition of a  
11 compensatory rate, that you would be well off and  
12 that would be the proper thing to do in so far as the  
13 Canadian agricultural economy is concerned. That is  
14 what I mean when I say "small". I would like to  
15 know what the contribution to overhead by one per  
16 cent, each one per cent, one per cent, two per cent,  
17 three per cent -- I would like to know whether these  
18 figures are available at all. I haven't any idea.  
19 Are they available to you, do you have them there  
20 at the moment?

21 A. No, you are referring to my other  
22 observation this morning, what is the effect of ---

23 Q. No, what I have in mind is this. You  
24 take coal in the United States that you had a great  
25 deal to do with. They are very far short of 100 per  
26 cent of variable cost, are they not, 100 per cent of  
27 fully distributed cost, isn't that so? As a matter  
28 of fact in some instances the revenue does not produce  
29 100 per cent of out-of-pocket cost, isn't that so?

30 A. Well, let us quote figures. What are





1 you referring to, products of mines, in your exhibit?

2 Q. Yes, but before I get to that, Dr.

3 Edwards -- I will come to that -- I intended to  
4 discuss Appendix A -- but as a preliminary to that  
5 I just wondered if you had the figure -- it is not  
6 necessarily as a preliminary to that but it is just a  
7 question I would like to get an answer to from you if  
8 you can give me one.

9 MR. SINCLAIR: For ready reckoning, would  
10 it be of assistance if we took one per cent equals  
11 let us say, 400,000 or 450,000 on Canadian National,  
12 somewhere in that neighbourhood for each one per cent,  
13 meaning that much of a dollar contribution. Make it  
14 rough -- each one per cent makes half a million for  
15 easy reckoning.

16 MR. FRAWLEY: I am obliged to my friend.

17 Q. If you had one per cent of variable cost,  
18 if Canadian Pacific had one per cent of its variable  
19 cost, its total variable cost, and half a million  
20 dollars more than that, why would that not be a proper  
21 place to put the rate?

22 A. Because I think you can do better than  
23 that. I think if it was a cent higher you would not  
24 lose traffic in that proportion.

25 Q. You would not lose traffic?

26 You would not lose traffic if you got  
27 your 100 per cent of your variable plus half a million  
28 dollars.

29 A. Well, you want to start with that as a  
30







1 base, don't you?

2 Q. Yes, starting point.

3 A. Well, if you went up to 2 cents versus  
4 one cent, compared those two, you would have to, as  
5 between the two you would break even if you lost  
6 half your traffic at 2 mills above the 7.7 versus  
7 one mill above the 7.7. You would have to lose  
8 a tremendous amount of traffic to stop at that narrow  
9 margin above the variable costs.

10 Q. Well, Dr. Edwards, I must confess some-  
11 thing immediately. I do not know quite what you mean  
12 when you talk about losing traffic. I am talking about  
13 grain moving to export positions in western Canada,  
14 the lakehead and at Vancouver. Those are the only  
15 movements I am talking about.

16 A. Yes.

17 Q. How are you talking about losing traffic?

18 A. I thought you were talking about the  
19 economics of setting a compensatory rate.

20 Q. Yes?

21 A. Now, you are assuming that there is no  
22 loss of traffic, or are you assuming loss of traffic  
23 as you raise the rates?

24 Q. I am assuming that if you endeavour to  
25 get from the farmers themselves fully distributed costs,  
26 the grain would not move. I am saying that is  
27 the Canadian Pacific's own conclusion and the Canadian  
28 National too for that matter, because they have  
29 abandoned that idea that they had -- they had it  
30





1 once -- that the farmer should pay for it. That has  
2 been abandoned now, and I say it has been abandoned  
3 because they know that the economy could not stand it  
4 and the farmer could not pay it and the grain would  
5 not move, and there would be no purchasing power coming  
6 back from overseas, and the whole economy would be  
7 in a state of chaos. That is why we cannot have the  
8 grain rates going up to the statistical figure of  
9 fully distributed costs.  
10

11 So I am trying to get down to something a  
12 little more reasonable. I say, suppose you took your  
13 100 per cent of variable, plus some small amount  
14 over that, what would be wrong with that? If there  
15 is something wrong with it, tell it to me, but not  
16 in terms of losing traffic.

17 A. Well, I have to interpret in terms of  
18 losing traffic. If you are going to assume that at  
19 7.7 you retain all the traffic and at 7.8 you lose all  
20 the traffic and chaos results, you don't have to ask  
21 me the questions, you can answer them yourself.

22 Q. I see.

23 A. You have given me assumptions that make  
24 it futile for me to even talk.

25 Q. What you are saying is that at some  
26 point in there there is going to start to be a  
27 price where the farmer cannot pay and the grain  
28 won't move to export?

29 A. Some place there would be some shrinkage.

30 Q. As a matter of fact a proposal is to





1  
2 leave it where it is at half a cent a ton on the basis  
3 that the farmer cannot pay any more than that. What  
4 is your reaction to that?

5 A. The proposal is? Whose proposal?

6 Q. Canadian Pacific Railway's proposal and  
7 the Canadian National.

8 A. To leave the rate at half a cent a ton  
9 mile?

10 Q. Sure.

11 MR. SINCLAIR: To the farmer.

12 THE WITNESS: Oh, to the farmer.

13 MR. FRAWLEY: And the tariff rate will leave  
14 half a cent a ton mile, so presumably it is felt that  
15 he cannot pay more than half a cent a ton mile. Never  
16 mind about .77.

17 A. No, I would not draw that assumption  
18 from that, that they meant that.

19 Q. What assumption would you not draw?

20 A. That they assume that no traffic would  
21 move, that beyond the half a cent a ton mile everything  
22 would dry up and you would have chaos. That is the  
23 predicature you gave me.

24 Q. At some point it would dry up?

25 A. All right, that is the issue, what point?  
26 Now, actually if you want to work with numbers as  
27 between a cent a ton mile and half a cent a ton mile,  
28 if the half a cent a ton mile causes heavy out-of-pocket  
29 losses and the one cent a ton mile yields you any  
30 significant traffic at all, you are economically better







1 off under the free market operations you are talking  
2 about, no supports of any kind -- we are doing this  
3 as rates are normally made -- you would be better off  
4 going to one cent, and I am sure there would be some  
5 traffic that would move at one cent.

6 Q. That is right, but what bothers me is,  
7 why is not the Canadian Pacific Railway doing that,  
8 why isn't that their proposal here? There is a  
9 statute that says they cannot increase it, but they  
10 want to get rid of that statute. That is part of  
11 what they are talking about. Let them get rid of  
12 the statute and then put the price at wherever they  
13 think it would be and that is fully distributed cost,  
14 one cent per ton mile. Let us suppose that the  
15 statute was removed and the Canadian Pacific Railway  
16 could put it exactly where they wanted to. I say  
17 they would keep it at fully distributed cost, they  
18 would have it at a cent a ton mile. What do you  
19 say?  
20

21 A. Well, I don't know how to add to what  
22 I have said previously on that point, Mr. Frawley.

23 Q. I suppose you are quite right, doctor.  
24 We can go on all afternoon, I suppose, on this kind  
25 of discussion. Would you look at Exhibit A?

26 THE CHAIRMAN: Exhibit 141?

27 MR. FRAWLEY: Yes, Exhibit 141.

28 Q. Now, this is the result of the burden  
29 study which is put out, I guess, once a year, is it  
30 not, by the ICC?





1  
2 A. That is right, sir.

3 Q. And this happened to be because you were  
4 speaking to this group in Washington in January 1953,  
5 and what you had there were the 1950 results?

6 A. Yes, sir.

7 Q. Without taking these more recent  
8 burden studies, the last one that I have is 6-58,  
9 and there is a more recent one -- Mr. Mauro has a  
10 more recent one -- a person could take the burden  
11 study and could make up one of these Exhibit A's that  
12 you have attached to this paper of January 1953?

13 A. Yes.

14 Q. As a matter of fact this Appendix A  
15 was prepared from a document similar to, same type of  
16 document as the one I have in my hand, ICC No. 6-58?

17 A. Yes, sir. I simply reached over and  
18 reproduced it.

19 Q. If you look on page 2 you will find  
20 that the total products of agriculture are only  
21 returning, the revenue from the total products of  
22 agriculture is only returning 97 per cent of fully  
23 distributed cost, and you will find when you look ---

24 A. Well, it is pretty close to parity,  
25 97 per cent.

26 Q. Yes. Now, if you look at the com-  
27 ponents of the item "products of agriculture", you  
28 will find that wheat is returning 131 per cent of  
29 fully distributed cost; flour wheat is only returning  
30 73 per cent; and flour edible not otherwise specified,







1 is returning 77 per cent; prepared cereal foods, 84  
2 per cent; mill products not otherwise stated return  
3 70 per cent; hay is returning 97 per cent.

4 A. That may explain on these products of  
5 the grain and the agriculture that traffic moves at  
6 other proportionate rates, and the single rate applies  
7 through in large part, origin to destination, and  
8 that the product moves into a mill and moves out, it  
9 moves at the balance of the through rate.

10 So in dealing with the grain and products, it  
11 is a common test to look at them in their totality,  
12 and I think they move, in their totality, grain and  
13 the products, at close to fully distributed costs.

14 Q. And animal products, when you look at  
15 the animals themselves you find that they are pretty  
16 far short. I am reading at page 2, starting with  
17 Code No. 203:

18 "Cattle calves sd."

19 What is the "sd", Dr. Edwards?

20 A. Single ---

21 Q. Single deck. You find that cattle calves  
22 single deck are only returning 75 per cent. As a  
23 matter of fact they are only returning 90 per cent  
24 of out-of-pocket. I am only using the present sheets.  
25 This was in 1950, and one would have to take off a  
26 statement every year to see what was happening. So  
27 that the total of animal and products, you do not get  
28 over, you do not get even near the 100 per cent, the  
29 figure that you are asking for export grain in Canada.  
30 You do not get near that until you leave animals and





1  
2 get to the fresh meats and the cured meats and the  
3 packinghouse products?

4 A. Well, as a whole, animals and products  
5 combined, the railroads participate in the movement of  
6 the livestock in and the fresh meats out.

7 Q. Yes.

8 A. As a whole they yield 101 per cent of  
9 fully distributed, as shown down under Code 910 on  
10 page 2.

11 Q. But cattle moving to market, cattle moving  
12 from -- I don't know where, from somewhere out in  
13 Montana country into Minneapolis, say, that is only  
14 returning, if it is single deck, only returning 90 per  
15 cent of out-of-pocket and 75 per cent of fully dis-  
16 tributed. Still you think that export grain moving  
17 into the world markets should return 100 per cent fully  
18 distributed?

19 A. I think it should return something close  
20 to that.

21 Q. When you come to the products of the  
22 mines that you are certainly very familiar with, espe-  
23 cially the coal, you have three coal items, and they  
24 are respectively 100 per cent for anthracite coal; 10  
25 per cent of fully distributed cost for the anthracite  
26 coal moving to washers and 80 per cent for the bituminous  
27 coal which is the big item. Notwithstanding that, you  
28 think that a commodity such as grain moving in solid  
29 trainloads, loaded mechanically, unloaded mechanically,  
30 should pay 20 per cent more and make a contribution 20





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2 per cent more than the contribution made by bituminous  
3 coal in the United States.  
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(Page 12826 follows)







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3 A. Well, let me state in the first place, this  
4 bituminous coal test in here -- fully distributed  
5 cost - is based on a ton and ton miles distribution  
6 which is much more severe than was applied in the  
7 grain test.

8 MR. SINCLAIR: The grain test where?

9 THE WITNESS: By the Canadian roads. And, included  
10 in these are very heavy passenger, substantial  
11 passenger and lcl deficitis.

12 MR. SINCLAIR: Included in "these" -- what do  
13 you mean -- in the fully distributed costs?

14 THE WITNESS: Yes.

15 MR. SINCLAIR: As stated in these American  
16 documents -- U.S. documents?

17 THE WITNESS: Yes.

18 MR. FRAWLEY: Is anybody under any misapprehension  
19 about that, Mr. Sinclair?

20 MR. SINCLAIR: I think maybe you are -- at least,  
21 it should be pointed out ---

22 MR. FRAWLEY: Oh, that is different.

23 Q. All right; continue, Dr. Edwards.

24 A. That 80 per cent factor, as I started to  
25 explain, and the same on anthracite coal, is based  
26 on the ton and ton mile distribution which on heavy  
27 loading commodities apportions to them a substantially  
28 sharper and heavier burden per ton mile than does  
29 the percentage basis of distributing constant costs.  
30 When you have a heavier loading commodity, the  
constant cost is depressed. If you increase for  
constant cost on a percentage basis against a  
heavier loading commodity, you put less against it in





1  
2 the form of burden than you do on the ton and ton  
3 mile basis which puts the same amount against a ton  
4 of bituminous coal as it would against a ton of  
5 silk goods. Also, in this burden are substantial  
6 amounts of passenger and lcl deficits which amount  
7 to some eight or nine per cent of the total cost  
8 involved in these fully distributed costs. I  
9 lifted out the passenger and lcl deficit burden  
10 and redistributed the burden, and on the percentage  
11 basis, as was done by the Canadian roads on Crows  
12 Nest grain. That bituminous coal treatment or  
13 distribution of the burden would rise substantially  
14 to somewhere between 93 and 94 per cent.

14 Q. I suppose if you did a lot of different  
15 things than the ICC did, you might bring it up to  
16 80 per cent, but I see it as 80 per cent under the  
17 way the ICC did it and under the way you went to  
18 the group of students and discussed it.

19 A. That is all right. If anyone would put  
20 more than the fully distributed costs on the same  
21 basis, then we raise the costs against grain by  
22 \$11 million over and above what is shown in these  
23 exhibits. You have to take your choice of what  
24 basis you want the comparisons to be made on. You  
25 can't have one in one case and the other in another.  
26 Any comparisons of distribution have to be fairly  
27 comparable.

28 Q. The simple fact is that bituminous coal,  
29 because it moves in large quantities -- you, of  
30 course, take great pains to show that bituminous coal,  
even though it returns a very small percentage of







1  
2 fully distributed costs, makes a big contribution  
3 because a lot of it moves, and that was the purpose  
4 of this little booklet of yours called "Building  
5 Blocks for Freight Rates". That was done while  
6 you were...?

7 A. While I was with the coal people

8 Q. Yes.

9 A. Just a moment. Pausing there, you said  
10 that bituminous coal makes a small contribution,  
11 but bituminous coal revenues are 41 per cent above  
12 their out-of-pocket costs. We have been talking  
13 here about grain and the fact that it does not  
14 reach that percentage above its out-of-pocket,  
15 and coal at a value of \$4 to \$5 a ton -- and I don't  
16 know what the value of grain is, but I suppose it  
17 is seven or eight times that per ton.

18 Q. Yes, the revenue from coal is 140 per cent  
19 of the out-of-pocket cost, but it is only 80 per  
20 cent of the fully distributed cost. That is what  
21 I would like to talk to you about - variable  
22 costs for grain, but you don't want that. You want  
23 variable costs plus 15 per cent of constant costs,  
24 which you call fully distributed costs. That is  
25 the situation, isn't it?

26 A. Pardon me; I am trying to be helpful, but  
27 you said coal makes a small contribution.

28 Q. No, I said a large contribution; it  
29 makes \$294,000?

30 A. You said coal moves in a small margin over  
out-of-pocket. I was endeavoring to correct that.

Q. No, I am not endeavoring to mislead  
anybody on what is written down here.





1  
2 A. Well, I think you must have misread it;  
3 that is all.

4 Q. Well, if I may say so, you are trying to  
5 explain away that 80 per cent, but, coming to  
6 agriculture ---

7 A. I am not trying to explain away the 80 per  
8 cent.

9 COMMISSIONER GOBEIL: Excuse me, Mr. Frawley. Is  
10 out-of-pocket costs the same as variable costs?

11 THE WITNESS: Yes, sir.

12 COMMISSIONER GOBEIL: Can we compare those  
13 figures in the United States with the ones in Canada?

14 THE WITNESS: Well, this is based on the 80  
15 per cent level of out-of-pocket costs. The one in  
16 Canada is a little lower level.

17 COMMISSIONER GOBEIL: If you take your wheat,  
18 for instance, on the first page, you have 131 fully  
19 distributed, and if you take the C.N.R. figures,  
20 that would be about 100. If, for instance, the C.N.R.  
21 give that variable cost as .77 and for total costs  
22 1.01 -- that is about 25 per cent difference.

23 THE WITNESS: Yes.

24 COMMISSIONER GOBEIL: If we apply the same  
25 relation that we have for total costs for wheat with  
26 the C.N.R., 100 per cent revenue over the out-of-pocket  
27 costs, then you have 125.

28 THE WITNESS: That would be the index, yes.

29 Q. How is it, then, there is such a big  
30 difference here? You have much more than 25 -- 131  
and 234?

THE WITNESS: Well, the comparable figure is  
234. The rate levels on wheat are substantially







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2  
3 higher in the United States than they are in Canada.

4 COMMISSIONER GOBEIL: It can't compare -- the  
5 percentage, I mean.

6 THE WITNESS: Well, that is the rate at which  
7 the wheat moves. That contemplates if wheat moves  
8 to the milling points or to the head of the lakes,  
9 but when it is milled in transit and moved out, that  
10 rate will also carry through the balance of the rate  
11 to the mill products. The mill products move --  
12 they are more costly because they load lighter. They  
13 don't load 55 tons as wheat loads. They have lighter  
14 loading, and the cost is higher, and the margin over  
15 out-of-pocket costs on the products as shown about  
16 seven or eight lines down from the wheat, is lower.

17 COMMISSIONER GOBEIL: Well, in the United States,  
18 if we take the first figures ---

19 MR. SINCLAIR: Excuse me, Commissioner Gobeil:  
20 I am wondering if you have got the figures right.  
21 I think you said Canada would be -- if it is .75  
22 as a variable cost and the rate is .5, that is, say  
23 one-third, under the column 4, for Canada, and that  
24 would be like 66.6, and the one over on the column 5  
25 then would be at a cent -- 130 something -- 132; it  
26 would be 66 and 100. That would be the relationship.

27 COMMISSIONER GOBEIL: Well, I will put it another  
28 way. If we take the first figures, 001, 234 and 131,  
29 if you put that the way it is put by the C.N.R.,  
30 this would come to about .55, and the other one would  
be 1.00, wouldn't it? Here they have .77, and over  
there it would be .55 -- the variable cost.

THE WITNESS: Well, these are relationships to







1  
2  
3 variable cost -- the percentages to them. If you  
4 use the column 4, where this rate moves at 23<sup>4</sup> per  
5 cent, the revenues on variable cost the comparable  
6 figures in the Canadian roads on their wheat would  
7 be in the relationship of half a cent a ton mile,  
8 revenue per ton mile, to an out-of-pocket cost, of,  
9 say .75 cents. So, this factor would be .66.

10 MR. FRAWLEY Q: Dr. Edwards, coming back  
11 to the animals, and products, and stopping at code  
12 No. 213 -- because, after you leave code No. 213  
13 then you are into meat products, and I am talking  
14 about animals off the farm -- just loaded from the  
15 farmer's yard into freight cars and shipped to  
16 packing plants, and all of that movement, the highest  
17 percentage you have -- there isn't one instance where  
18 you get your out-of-pocket costs out of the revenue  
19 and have a percentage of fully distributed costs.  
20 The highest you have is 79, or even less than 80  
21 per cent. Would you advise that the rates for  
22 the movements itemized as code Nos. 203, 207, 209, 211  
23 and 213, that they be increased to 100 per cent of  
24 fully distributed costs?

25 A. No sir, I would advise that they  
26 endeavour to handle the traffic some other way than  
27 by rail; give it to the trucks in this case here.

28 Q. Of course, you can't say that to the  
29 wheat farmer in western Canada.

30 A. No, I can't say that to the wheat  
farmer in western Canada.

Q. That is captive; he has to pay whatever  
rate is imposed on him.





1  
2 A. It appears if the railroads are  
3 caught in the sense here and are obligated to haul  
4 it at a loss -- and every railroad is testing  
5 constantly its full range of traffic to eliminate  
6 this loss traffic in one way or another.

7 Q. But, of course, that is precisely  
8 what you were talking about when you indicated all  
9 of the things you have indicated about the futility  
10 of using fully distributed costs for the purpose  
11 of making rates; isn't that so?

12 A. Yes sir, we have gone over that at  
13 various times, and I stand right now where I stood  
14 before on that question.

15 Q. That is what you mean when you say  
16 when people put to you that they are applying fully  
17 distributed costs as a proper measure of freight  
18 rates -- when counsel put that to you, you are left  
19 speechless? That is what you have said to the  
20 students on the 21st of January 1953? But, still  
21 you are supporting the Canadian Pacific Railway  
22 before this commission wanting 100 per cent of  
23 fully distributed costs?

24 A. Yes, the best answer I can give to  
25 that is that I find it 100 per cent, and I am not  
26 speechless because I know that is the results of  
27 economic forces that work over decades. It is  
28 the end product of value of service and economic  
29 considerations. These will gravitate back to  
30 100 per cent if the railroads are going to recover  
their constant costs and be solvent.





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3 Q. Value of service measures the ability  
4 to pay, does it not?

5 A. It measures all the traffic considerations.

6 Q. And the important one is the ability  
7 to pay? I think you have said that yourself in some  
8 of the statements that you have made. Demand  
9 considerations, ability to pay, value of service -  
those are all somewhat synonymous.

10 A. It is a complex of economic considerations.

11 Q. But here, of course, there is no value  
12 of service at all in view of this rate which the  
13 railways want? There is no value of service.

14 A. I don't agree with that at all; and  
15 I don't know how to state it any better than I have  
16 been stating it the last day and a half and this  
morning.

17 Q. Let me put it this way: The rate  
18 is being demanded as to about three-quarters of it;  
19 everything over half a cent is being demanded from  
20 the federal treasury. I put it to you that when  
21 you use the concept of ability to pay you are  
22 talking about the ability of the shipper to pay.  
23 Surely we have not got a new ruling, namely, the  
24 ability of the federal treasury to pay? That is  
not the value of service which is planned now.

25 A. When I talk about the ability to pay  
26 I am talking about the ability of the traffic to  
27 move; I am thinking of the elasticity of the demand  
28 on the transportation. I am not thinking of  
29 individuals, or the shippers; that enters into  
30 other considerations. I am thinking in terms of





1  
2 the movement.

3 Q. But what bothers me is how you can  
4 get into that kind of reasoning when you are not  
5 asking the shipper, you are not asking the traffic  
6 that handles it, to bear this cost; you are asking  
7 the government of Canada to pay a half a cent a  
8 ton mile up to one cent. I say the whole concept  
9 goes to that. Do you not think it does?

10 A. No.

11 Q. Because you say that you take into  
12 account the ability of the Federal Treasury of  
13 Canada to pay.

14 A. I am taking into consideration the  
15 fact of whether the traffic will continue to move.

16 Q. With the help of the treasury of  
17 Canada.

18 A. In that case, yes.

19 Q. Well, then, isn't it the ability of  
20 the treasury of Canada to pay that we are talking  
21 about?

22 A. No; that rate was not set - if we  
23 had set that rate - if you want to follow that line  
24 through - I am sure the ability of the treasury of  
25 Canada to pay would be higher than here indicated,  
26 I suppose; I don't know what the ability of the  
27 treasury...

28 Q. We have got to stop somewhere - even  
29 the treasury of Canada has to stop somewhere. So  
30 you say one cent per ton mile fully distributed cost.  
We will take that.

A. No. We can stop when we reach a





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3 reasonable level, all reasonable factors considered,  
4 and to that effect the fully distributed cost is  
5 incidental.

6 That is the final thing I can say, and  
7 if you want to deny that, Mr. Frawley - I have been  
8 saying it for the last one and a half days.

9 Q. I am not denying it; I am suggesting  
10 to you that you are leaving the shipper and you are  
11 leaving the traffic just where it is; the traffic  
12 is going to move as it always did, the shipper is  
13 going to pay what he always pays; and I say that  
14 in this concept you are leaving it to the Federal  
15 Treasury entirely. You are not asking the shipper  
16 to pay one cent more; you are not asking the  
17 traffic to pay any more. The traffic will no more  
18 be able to pay - to get the ~~tax~~ rate, or income  
19 tax rate, subsidy - than before.

20 There are two different things. You say:  
21 "All right, it will move". I suggest to you that  
22 those are completely incompatible - the fact that  
23 it is going to move with the help of this large  
24 \$61 million a year from the Federal Treasury. Of  
25 course it will move; that has got nothing to do  
26 with the ability of the traffic to handle the  
27 rate.

28 THE CHAIRMAN: I don't think you need to  
29 argue any more with the witness, Mr. Frawley.

30 MR. FRAWLEY: Well, Mr. Chairman, frankly,  
with great respect, I don't like to be told that I  
am arguing with the witness. I want to put my  
point to him.







1  
2 THE CHAIRMAN: Well, he is arguing with you.

3 In any event, you have made your point.

4 MR. FRAWLEY Q: Will you go to the products  
5 of the forest on page 3 of exhibit A? Here is  
6 one raw material that is put on the cars actually  
7 not in as raw a state as grain; because you would  
8 agree with me, Dr. Edwards, that grain goes on the  
9 cars just as it comes from the field after it has  
10 been threshed. That is so, is it not?

11 A. That is right.

12 Q. Now, some of these products of the  
13 forest have been processed in mills. But, in any  
14 event, just look at what you are getting from  
15 products of the forest.

16 There are only three items that are returning  
17 you more than your fully distributed costs. In 401,  
18 logs, butts and bolts - you are only getting 43 per  
19 cent. I am sure Mr. Fraser will be interested in  
20 some of these figures and will be pondering on this  
21 one of 43 per cent of fully distributed cost. And  
22 93 per cent for wooden posts and pulp; 55 per cent  
23 of fully distributed costs for fuel wood. Now  
24 you get for railroad ties 114 per cent of fully  
25 distributed cost; for pulpwood, 52 per cent and  
26 so on down the line. The only place you hit 100  
27 per cent is on box materials which is an even 100;  
28 and turpentine, resin, 114 ~~per cent~~....

29 MR. SINCLAIR: Mr. Fraser is pondering  
30 lumber and is shaking his head in horror.

MR. FRAWLEY Q: The total products of the  
forest return revenue on a total production rate of





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2  
3 89 per cent of fully distributed cost; and,  
4 nevertheless, you support the Canadian Pacific in wanting  
5 100 per cent of this basic commodity, embodying  
6 not domestic but trade in the world market, and  
7 you say give us fully distributed costs?

8 A. Yes.

9 Q. What do you think about that?

10 A. I reiterate again that these have  
11 all the passenger and lcl deficits in them, without  
12 which these lumber and other items will be  
13 significantly over 100 per cent. Also, the  
14 great bulk of this traffic is in lumber, and logs  
15 move in and lumber moves out; it is substantially  
16 a continuous movement of traffic.

17 Q. And on lumber you don't even hit  
18 100 per cent of fully distributed costs?

19 A. We do; without the passenger and lcl  
20 deficits they are all above 100 per cent.

21 Q. Leaving aside the passenger deficit  
22 from the grain study, all that does is just to put  
23 it on other traffic, doesn't it? It puts it on  
24 farm machinery and on products and on the animals and  
25 on the forestry products and on the pipes for the  
26 oil country, doesn't it, and it just removes it  
27 from grain - no, it really does not remove it from  
28 grain. Aren't you just removing it from the  
29 Minister of Finance in the end?

30 A. I don't understand your reference  
to the Minister of Finance.

Q. He is going to put up the money.

A. You are talking about the future.







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Q. If you add that up...

A. Where the burden is being borne - I would say it is being borne by the investors of the C.P.R. getting a 2.7 per cent rate for money, the cost of which is much greater than that.

Q. That is the 2.7 per cent return, I think, on your railway revenue?

A. That is right.

Q. Dr. Edwards, we will just explore that for a moment. If you add the passenger deficit on, and Mr. Stenason had added it on - I don't know how he would have done it -- multiple regression, or allocation, or assigning, or any other way - then he would have increased the variable cost from - what did you say it was? - .7 something...

MR. SINCLAIR: .75 to .77; or 7.7 if you want to take mills.

MR. FRAWLEY: Don't make it too difficult.

Q. If Mr. Stenason had added in the passenger deficit and - wasn't there something else you said that Mr. Stenason left out - lcl deficit?

A. He did not include those. The lcl, is it? No, they are out.

Q. If it had been added in then your 100 per cent variable would have been up around, maybe, one cent.

A. Our variable cost would not have been affected at all. Those items only relate to their inclusion in the total burden to be recovered.

Q. But the fully distributed cost would have been more than one cent?





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3 A. That is right.

4 Q. Now, then, I am only discussing this  
5 from the standpoint of the benefit from the fact  
6 that grain was not loaded with the passenger deficit  
7 or the lcl deficit, and I approach this as the  
8 farmer in western Canada. He isn't going to pay  
9 any more than the same half cent per ton mile.  
10 The only thing that this particular costing  
11 technique that you adopted - the only people that  
12 it helps, again, is the national treasury; isn't  
13 that so?

14 A. They are not incorporating these  
15 deficits in this proposed rate of one cent per  
16 ton mile, so the national treasury gets more  
17 cost because of the existence of passenger deficit  
18 and lcl deficit.

19 Q. I quite understand that; but you  
20 have referred to it two or three times and that  
21 is why I have....

22 A. I don't know where you are bringing  
23 it in.

24 Q. You have referred to it often and  
25 you have referred to it as an item in some figures  
26 in your memorandum in which you make the point that  
27 we would be better off - like in the long and the  
28 short haul in Alberta - that we would be better  
29 off - you have it here on one page - page 5, I  
30 think.

MR. SINCLAIR: Of his precis?

MR. FRAWLEY: I hate to admit it, but I  
think I will have to look for it myself. I don't





1  
2  
3 want to rely on you....

4 MR. SINCLAIR: Look at page 27 and see  
5 if that will help.

6 MR. FRAWLEY Q: You are telling us -  
7 the grain farmers in western Canada - that we  
8 are \$11,200,000 better off because you didn't include  
9 the passenger deficit and the lcl deficit; is  
10 that right?

11 We will take both of them. Now, this  
12 benefit that has accrued to somebody because of the  
13 fact that they were apportioned on a variable  
14 expense basis of 15.36 per cent - that is the portion  
15 of the constant cost that entered into the fully  
16 distributed cost...

17 A. That is right.

18 Q. ...and you say that if we had done  
19 it on the basis that the ICC has, on the ton and  
20 ton mile basis, we would have been over \$11 million  
21 worse off.

22 A. The figures would have been \$11  
23 million higher, but you are not any worse off  
24 because there is no proposal that this \$11 million  
25 be incorporated in the rate.

26 Q. That is why I said "somebody". If  
27 the costing had been done on the ICC basis then  
28 the apportionment would have been \$11,200,000 more?

29 A. Yes. If there had been  
30 distribution of the constant cost excluding passenger  
and lcl deficit on a ton and ton mile basis you  
would have been \$11,200,000 higher.

Q. So that what that would have meant







1  
2  
3 is that you would have had to increase the amount  
4 which you are asking by way of contribution from the  
5 Federal Treasury?

6 A. No.

7 Q. No?

8 A. No.

9 Q. Will you explain that, because you  
10 are leaving the shipper with just a half cent a ton  
11 mile.

12 A. Because these rates were not based  
13 upon fully distributed cost as the test; they were  
14 based upon the cost as shown - out-of-pocket costs -  
15 looking at the total cost - but the level of rate  
16 was based on economic and traffic considerations  
17 as set forth by Mr. Roberts and Mr. Crump; so that  
18 the change in these figures here of \$11 million  
19 would have had no influence on the one cent per  
20 ton mile proposal.

21 Q. It wouldn't have increased the  
22 fully distributed costs if there was \$11 million  
23 more put in?

24 A. But you are saying if you increased  
25 the fully distributed cost automatically you  
26 increased the rate proposal; and I am saying that  
27 is not true. The rate proposal was based on what  
28 I consider to be sound rate considerations, and  
29 this inclusion of the \$11 million would have had  
30 no bearing or effect on the rate proposal.

Q. Well, however sound the rate factors  
and considerations were, the proposed rate is the  
fully distributed cost.....





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MR. SINCLAIR: It is not.

THE WITNESS: I think there is some  
difference in there.

MR. FRAWLEY Q: There is some what?

A. There is some difference between the  
two.

THE CHAIRMAN: We will break now for the  
recess.

---Recess.







1 Q. Dr. Edwards, if I was under any  
2 misapprehension about whether or not the Canadian  
3 Pacific Railway were seeking to have the rate fixed  
4 at fully distributed cost, it may come from the fact  
5 that they are seeking a 100 per cent increase in the  
6 present rate, in the money they receive from the  
7 present rate, and they get half a cent a ton mile, and  
8 they first want to establish a rate at twice that,  
9 which is one cent; they are not seeking from the  
10 shipper any more than the .5 they pay now, and they  
11 want up to the one cent from the federal treasury.  
12 It seems to me that, saving a decimal point here and  
13 there, that one cent is the result of the cost study  
14 that the C.P.R. put in. Is that not right sub-  
15 stantially?

16 A. Well, in the case of the Canadian  
17 National I think the proposed rate is about 93.5 per  
18 cent of the fully distributed cost. In the case of  
19 Canadian Pacific, it is less than fully distributed.  
20 It would be about 98 per cent of fully distributed  
21 cost in the case of the C.P.R. based on their defini-  
22 tion of fully distributed. It leaves out these  
23 deficits and uses a percentage basis.

24 Q. Now they are getting .5 roughly, maybe  
25 a little less than that. I think I have heard the  
26 figure .46, but in that neighbourhood of .45 or .5,  
27 as the revenue they are getting per ton mile?

28 A. .48 for the Canadian National and .49  
29 for the C.P.R.  
30





1 Q. And then ---

2 A. Just a moment, Mr. Frawley.

3 MR. SINCLAIR: We will give it to the actual  
4 decimal point if Mr. Frawley wants it. It is pretty  
5 close to .5.

6 MR. FRAWLEY: Q. If it were .49 and you  
7 want .98, which is double, that is 100 per cent more?

8 A. Well, the figures are apparently double.

9 Q. .49 plus .49 is .98?

10 A. Yes, sir.

11 Q. And if you only want .49 from the farmer,  
12 then you want .49 from the Minister of Finance. Isn't  
13 that what it comes to?

14 A. Well, the amount of the burden on the  
15 Minister of Finance has been set forth, I think, in  
16 Mr. Crump's precis, and I think that amount is in  
17 some measure of around \$20 million, and I don't think  
18 that works back to ---

19 Q. Perhaps this would be the time to put  
20 this. You can't do any better than look at the  
21 statute which the Canadian Pacific would like, and they  
22 would like a section 328(a), and it reads this way:

23 "Notwithstanding anything contained in  
24 the Income Tax Act, railway companies which  
25 are subject to Section 328(6) of the Railway  
26 Act may deduct from income tax otherwise  
27 payable for the taxation year, computed in  
28 accordance with the provisions of the Income  
29 Tax Act, an amount equal to the difference  
30





1  
2 between:

3 "(a) gross revenues received in the taxation  
4 year for transporting grain and grain products at  
5 the rate level prescribed in Section 328(6) of  
6 the Railway Act.--"

7 that is the present rate --

8 "-- and (b) gross revenues which would have been  
9 received if the said traffic had been moved at  
10 an increase of 100 per cent over the said pre-  
11 scribed statutory level or at such level as the  
12 Board of Transport Commissioners may subsequently  
13 determine and change and alter as changing co -  
14 ditions or cost of transportation may from time  
15 to time require; such difference, however, to  
16 be reduced by subtracting therefrom the amount  
17 arrived at by applying thereto whatever rate  
18 of income tax is applicable in the taxation  
19 year. The amount of the deduction from income  
20 tax so calculated to be certified by the Board  
21 of Transport Commissioners."

22 That is what they want, and if I took from  
23 anything in the evidence that they wanted fully dis-  
24 tributed costs, it really came from witnesses like Mr.  
25 Crump and Mr. Roberts who said yes, for grain moving  
26 to export positions in western Canada they should pay  
27 fully distributed costs or full cost.

28 MR. SINCLAIR: Full cost as described.

29 MR. FRAWLEY: Q. Surely I am not wrong in  
30 putting to you that they are wanting fully distributed







1 cost for this grain.

2 A. They are wanting what they justified to  
3 be a proper rate under economic considerations. Now,  
4 that is very close to full cost, slightly below. If  
5 they only wanted full costs, Mr. Frawley, they would  
6 not have gone to the effort to evaluate the rate making  
7 considerations, the increases in rates that were applied  
8 to other traffic over this period of years as set out,  
9 so that they would only have said to these two gentle-  
10 men: "Fine; full cost, and that is our rate." Now,  
11 you are trying to indicate that that was the sole pur-  
12 pose of this rate proposal.

13 Q. I certainly am. Let's have no mis-  
14 understanding about what I am putting to you.

15 A. And I am putting to you that that is not  
16 the basis, so we are poles apart.

17 Q. That came from Jim Roberts' precis which  
18 reviewed the history or Mr. Stenason's study that showed  
19 that full cost was a cent?

20 A. I presume they may have been simultaneous.  
21 But I would suggest that these parties answer the ques-  
22 tions. All I can do is evaluate and look at the  
23 considerations, and I have spelled out these various  
24 features that enter into rate making, and to the best  
25 of my knowledge their proposal satisfies these rate  
26 considerations, and I have said many, many times, as  
27 has been demonstrated on this record, that you cannot  
28 turn to full cost, and I am sure these traffic officers  
29 are sufficiently sophisticated to appreciate that fact,  
30 or they wouldn't be where they are.





1  
2 Q. You have said some rather harsh things  
3 about the use of full distributed cost as a rate making  
4 factor, have you not?

5 A. Yes, as the final determinant of a  
6 proper rate.

7 Q. I beg of you not to think I am endeavour-  
8 ing, or even without endeavouring, to be at all unkind,  
9 but I am wondering whether or not you are drawing on  
10 these economic considerations which come into these  
11 things by explaining some of these harsh things that  
12 were said about fully distributed cost as a basis for  
13 fixing a rate?

14 A. No, sir.

15 Q. I want to read you something which was  
16 said that appears as an article in Transportation Costs  
17 and Freight Rates, Ford K. Edwards, Director, Bureau  
18 of Coal Economics, National Coal Association, a booklet  
19 dated May, 1951, which I referred to this morning, and  
20 I find you said this at page 85:

21 "The so-called fully distributed costs  
22 consist simply of the out-of-pocket costs to  
23 which the cost man has added some arbitrary  
24 distribution of the constant costs. The  
25 distribution may be on a prorata ton and  
26 ton-mile basis, a percentage basis, a carload  
27 basis, a car mile basis, etc. Each distri-  
28 bution has a different significance and each  
29 can give a substantially different answer.  
30 The Commission's Cost Section has widely







1 used both the first and second methods listed  
2 but favours the first (prorata ton and ton-mile  
3 basis) where the constant costs are large, as  
4 in the case of rail transportation. This method  
5 is especially useful as an analytical tool.

6 "Although there always seems to exist a  
7 strong pressure on the cost man to produce full  
8 cost figures" --

9 I draw your attention to the expression "full cost";  
10 that is what Mr. Crump and Mr. Roberts were talking  
11 about --

12 "-- i.e., figures that will 'use up' all the  
13 expenses, it should here be emphasized that any  
14 distribution of the total costs over units of  
15 traffic being differentially priced represents  
16 a statistical tool and nothing more. Such  
17 figures are akin to a level which a surveyor  
18 uses to gauge his elevations; like the  
19 surveyor's instrument, they are of no guide  
20 in themselves as to whether the engineers to  
21 follow should build a high road or a low road.

22 "As long as the full costs are understood  
23 for what they are, i.e., analytical tools and  
24 nothing more, they can be quite helpful."

25 Now, those are the same fully distributed  
26 costs that you were supporting the Canadian Pacific  
27 Railway in asking it to fix as the rate to move grain  
28 in western Canada, are they not?

29 A. Well, let's read the following paragraph.  
30





1 "Every so often ---"

2 Q. I don't mind. I will certainly read it.  
3 I had better finish that paragraph. I stopped at  
4 the word "helpful".

5 "As explained above, they help in appraising  
6 the past influence of the demand factor on  
7 existing rates."

8 A. Now, that is an explanation I think I  
9 gave a day or so ago. That explains what the results  
10 of the market factors over long periods of time have  
11 been in carving out or setting up the economic levels  
12 of these rates. In other words, the market influences  
13 in the setting of these rates have been effective over  
14 a good many years. I am speaking of rates generally.  
15 They are the product of a whole series of considera-  
16 tions. This sentence here is quite important --  
17 the valuation I place on the utility of fully distributed  
18 costs, and it is a very limited utility, as I am trying  
19 to get across. They help in appraising the past  
20 influence of demand factors on existing rates. Now,  
21 that is one of the very limited uses that can be made  
22 of fully distributed costs. Now that I have got that  
23 clear, do you want to go on?

24 Q. When you are talking about the demand factor,  
25 you are not talking about the movement of grain in  
26 western Canada, are you?

27 A. Well, let's finish reading this.

28 Q. That's fine. I will read on.

29 "Also, as illustrated by the Class Rate  
30 case (Docket 28,300), they are indispensable in





1 comparing the relative total transportation  
2 costs for like lengths of haul and like loads  
3 in different regions or territories. Where the  
4 element of demand is presumed to be constant,  
5 such as is sometimes the case in switching tariffs,  
6 (as where all traffic in a zone takes the same  
7 carload charge irrespective of the lading), the  
8 fully allocated costs can become the direct  
9 measure of the rate.

10 "Every so often someone comes out with  
11 the suggestion that all rate-making could be  
12 greatly simplified and traffic helped by  
13 sweeping aside all considerations of demand and  
14 basing rates wholly or principally on the fully  
15 distributed costs. Often the sponsor of this  
16 suggestion doesn't even stop to define which basis  
17 of fully distributed costs he would use, which  
18 is very important, as cost men tend to have  
19 their own pet ideas on how to apportion these  
20 costs. Needless to say, such proposals mis-  
21 conceive the problems of pricing the product  
22 in a field where constant and joint costs are  
23 important. They mistake the analytical tool  
24 for the real thing."

25 That is what you want me to read, doctor?

26 A. Yes. Now, I don't think that in the  
27 making of this rate, these proposals, that Mr. Roberts  
28 or Mr. Crump misconceived the analytical tool for the  
29 real thing.

30 (Page 12853 follows)





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TORONTO, ONTARIOEdwards, cr-ex.  
(Frawley)

12853

1  
2  
3 Q. You think that Mr. Roberts made this  
4 rate, not Mr. Stenason?

5 A. Yes sir.

6 Q. All right, I want to read you something  
7 from page 2 of this burden study, No. 6-58 prepared  
8 by the cost finding section. That was some years  
9 after you left, but I suppose it was written by  
10 somebody there under the direction of the present  
11 director of the cost section, and it reads as follows.

12 A. Pardon me, that statement, what  
13 year was that?

14 Q. It is dated Washington, November, 1958,  
15 statement No. 6-58.

16 A. I do not have that one.

17 MR. SINCLAIR: I will hand it to you after  
18 Mr. Frawley has finished reading.

19 MR. FRAWLEY:

20 "The 'fully distributed costs' in this  
21 study underlying Table 7..."  
22 and Table 7 is the "Revenue contribution to burden  
23 and other data by commodity classes and territorial  
24 movements, 1956" taken from the one per cent  
25 way bill sample,

26 "The 'fully distributed costs' in this  
27 study underlying Table 7 refers to the  
28 sum of the out-of-pocket costs and the  
29 statistical ton and ton mile apportionment  
30 of constant costs computed as described  
above. In respect to these fully  
distributed costs a word of caution is  
necessary concerning their use in rate





1  
2  
3 making. Rates based solely on fully  
4 distributed costs shown herein would ignore  
5 one of the greatest principles of rate-  
6 making, i.e., that of differential  
7 charging. If rates were made without  
8 recognizing differential charging the  
9 result would be reductions on highgrade  
10 traffic and concomitant increases on low  
11 grade volume traffic. Historically,  
12 rates reflect continuous interplay of  
13 economic forces so as to permit all  
14 commodities to move with the most reasonable  
15 freedom and at the same time contribute as  
16 much as possible to the transportation  
17 burden. Therefore, the ratios of revenue  
18 to out-of-pocket costs shown in Table 7,  
19 hereto have a rate-making significance  
20 which is not possessed by the ratios of  
21 revenue to fully distributed costs shown in  
22 an adjoining colume of the same table.  
23 Revision of rates to the basis of fully  
24 distributed costs, a completely undesirable  
25 approach to rate-making, would tend to cause  
26 volume traffic to move in smaller amounts  
27 with a consequent reduction in the  
28 contribution to burden which it now  
29 furnishes. Thereby an increase in rates  
30 rather than a reduction would be placed  
against the higher rated traffic."

Do you want to see this, Dr. Edwards?







1  
2  
3 MR. SINCLAIR: While Dr. Edwards is  
4 looking at it and before answering my friend, Mr.  
5 Chairman, it has occurred to me, if it needs to be  
6 brought to the attention of the Commission and made  
7 abundantly clear, that in the precis of Mr. Roberts  
8 which I have in my hand that is also on the record,  
9 he did say at page 20, and this is important

10 "To test the reasonableness of the proposed  
11 rate level, the revenue per ton mile  
12 which would be produced under such a level  
13 was examined."

14 In that test he then looked at what the effect was  
15 as developed by the cost study, so I think if  
16 there is a misconception in my friend's mind that  
17 the evidence has shown that the rate was not fixed  
18 on the basis of costs as determined by the cost  
19 studies in C.P. or C.N. ( I haven't got the C.N.  
20 data before me, but this was also their position )  
21 that the proposition was, as Dr. Edwards has said  
22 many, many times that the rates, what would be a  
23 just and reasonable level by normal revenue  
24 processes was looked at, one of which is looking  
25 at the cost figures and the tests that arose therefrom.

26 Now, we can go on all day like this, sir --

27 MR. FRAWLEY: We can certainly go on all  
28 day. I will just satisfy myself with one  
29 observation. My friend talks about a just and  
30 reasonable rate. How can there be? We have  
heard many times from the same counsel for the C.P.R.  
a just and reasonable rate must be just and reasonable





1  
2 to the shipper as well as to the railway. Here is  
3 a rate which the railways say is just and  
4 reasonable to the railway, but it is obviously not  
5 just and reasonable to the shipper. The  
6 shipper is only paying a small portion of it. Are  
7 we going to say: "Well, is it just and reasonable  
8 to the Minister of Finance?"

9 THE CHAIRMAN: I understood that Mr.  
10 Sinclair simply spoke to clear the facts.

11 MR. SINCLAIR: That is right. I can  
12 argue these other things --

13 THE CHAIRMAN: We wont argue it now.

14 MR. SINCLAIR: It was just to clear what  
15 this evidence was.

16 THE CHAIRMAN: Which came first, the  
17 chicken or the egg?

18 MR. SINCLAIR: Of course, Mr. Chairman, as  
19 you, sir, and others know so well, costs and  
20 fully distributed costs have never been used as the  
21 sole determinant to fixing of the rate, in all  
22 the cases that we have been in, and I think in  
23 this case it is very, very clear this was not done  
24 in the instant studies by Canadian National or by  
25 Canadian Pacific Railway. I just cannot understand  
26 why that is causing all this ---

27 MR. FRAWLEY: Of course I am absolutely  
28 amazed. My friend says now that this is not a  
29 fully distributed cost, it is not full cost and  
30 which Mr. Crump says was and Mr. Roberts said was,  
Mr. Stenason established it as such. It is just  
incredible, that is all. We have been here since







1  
2 May of 1959 and we get that remark from Mr. Sinclair.

3 THE CHAIRMAN: Well, we have the records.

4 MR. FRAWLEY: It is just fantastic.

5 MR. SINCLAIR: I think the question was,  
6 did you look at that document? I am sorry I  
7 intervened. Did you look at it, Dr. Edwards? I  
8 think, Mr. Frawley, he has now looked at it.

9 MR. FRAWLEY Q: What the cost section  
10 said there causes you no surprises at all?

11 A. No sir.

12 Q. It is just the same sort of thing,  
13 I suppose, that you would have written, and perhaps  
14 did write yourself, in the days when you were  
15 director of the cost section?

16 A. That is right, and it is the same  
17 sort of thing that I presented in all those talks  
18 I have been referring to.

19 Q. That is right. That is, basing  
20 rates on fully distributed costs is a completely  
21 undesirable approach to rate-making?

22 A. That was put in, all Commission  
23 documents contained a warning to people that used  
24 that before the Commission, not to misuse the data  
25 and embarrass the cost section, nor the Commission.

26 Q. Well, it is not like the laws of the  
27 Medes and Persians, so Mr. Sinclair pays no attention  
28 to it, but it is there. The ICC said so.

29 Now, I want to ask you about something  
30 else. Dr. Edwards, in the work that Mr. Stenason  
did I understand that all wages, train miles and  
engine miles were treated as completely variable  
with traffic, is that right?







1  
2 A. That is right.

3 Q. I want to read you something from  
4 the Railway Age of April 25, 1960 on size variable  
5 costs, because Mr. Stenason has discussed that  
6 and has used that as one of the integral parts of  
7 his cost studies.

8 I want to put to you a concept of size  
9 variable costs which I think you will find  
10 different from the concept as Mr. Stenason used it.  
11 This is article in Railway Age which is called  
12 "Cost Map can Aid Rate Men" and it is an article  
13 describing what a cost accountant of the Detroit,  
14 Toledo and Ironton Railway has developed by way of  
15 a cost formula. The date is April 25th, 1960. I  
16 will read these two bits for you and then you can  
17 look at it, Dr. Edwards.

18 "D.T. & I. begins by classifying its  
19 basic costs into three principal categories.  
20 Output Variable Costs - those which vary  
21 primarily with amount of transportation  
22 produced, for example engine-hours or  
23 train-miles.

24 Size Variable Costs - Those which vary  
25 with, and are affected by, amount of  
26 transportation produced, and also by  
27 relatively short term changes in size of  
28 plant to accommodate differing levels  
29 of traffic, for example car rental and  
30 maintenance costs."

The third is:

"Size Fixed Costs - those which are





1  
2 affected primarily by size of plant,  
3 and do not vary (except perhaps over  
4 very long periods of time) with traffic  
5 levels or amount of transportation  
6 produced, for example, station expense."

7 I want to ask you whether or not that is a different  
8 concept from the size related costs that Mr.  
9 Stenason was discussing with me.

10 A. Well, I am not clear what he means  
11 by his intermediate level of size variable costs.

12 Q. I will just put one question to you.  
13 At the conclusion of the little part I have marked,  
14 he is talking about station expense. Now, he is  
15 citing station expense as an example of fixed costs,  
16 is he not?

17 A. He gives station expense as an  
18 illustration of fixed costs, that is right.

19 Q. Now, I am not suggesting, Dr.  
20 Edwards, whether he is right or whether he is wrong,  
21 whether Mr. Stenason is right or wrong. I simply  
22 say there is a difference  
23 there with regard to the manner in which it is  
24 treated by Mr. Stenason and by Mr. ~~Weisman~~ the  
25 cost accountant referred to there, which indicates  
26 to me that this is something which is open to  
27 perhaps debates.

28 A. Well, this gentlemen is debating.  
29 What he means by station expense being fixed - I  
30 have always treated as partly variable and partly  
fixed.

Q. Weisman says it is fixed.







1  
2  
3 A. I wrote this gentlemen and asked  
4 him for a copy of his talk, and he made the comment  
5 that he was endeavoring to work with the very short  
6 term periods.

7 Q. You flatter me. I am glad to know  
8 it struck your eye and that you wrote the  
9 gentlemen and asked for some elaboration. At  
10 least it is not something which is picked out of  
11 the ashcan.

12 A. Whenever I see an article written by  
13 somebody on costs, it is my practice to write and  
14 inform myself of what they are doing. Now, I don't  
15 know, I know he is working with, what you might  
16 call, very short term incremental costs.

17 I suppose, to illustrate that, if he had  
18 a train going out one morning and he thought there  
19 were some extra cars on there, that he could put  
20 on the cars without any added costs, he put them on  
21 and treated it as no additional cost. That is  
22 a very short term treatment of expenses that he  
23 is dealing with.

24 Q. I can go no further than that, Dr.  
25 Edwards.

26 A. Yes.

27 Q. Mr. Stenason treated it as variable  
28 and Mr. Weisman regards it as fixed, and there  
29 seems to be room for difference of opinion. There  
30 is another one small part I want to read from that  
and then I have finished with Mr. Weisman.

THE CHAIRMAN: Whose view do you prefer,





1  
2 Mr. Stenason's or the other gentlemen?

3 THE WITNESS: I have always used the  
4 approach of Mr. Stenason. There has always been  
5 present and used by parties in some cases the  
6 added car theory. You can always add an extra  
7 car to a train and it does not cost you anything.  
8 Therefore you can leave out crew wages and you  
9 can leave out any additional expenses for yards  
and so on.

10 However, after a period of time you  
11 come up against a situation that there are only  
12 so many cars you can get on that train and you  
13 have to put on another train.

14 Now, the ICC faced that situation in the  
15 south, where the proposal was that a certain train  
16 serving a certain area had a capacity for a few  
17 more cars, and the suggestion was that that  
18 traffic could be handled and no additional crew  
19 expense and no additional locomotive expense but  
20 they put in a little for fuel, which gave an  
extremely low cost on the short term.

21  
22 (page 12863 follows)  
23  
24  
25  
26  
27  
28  
29  
30





1 The Commission objected to that and said that the  
2 proposed rate would be in service for some lengthy period,  
3 it was assumed, and that over a period of time the train  
4 miles and trains operated would be variable with the  
5 volume of traffic to be tendered. There are various  
6 studies: in the Divisions Case we made exhaustive  
7 tests with major roads that I represented as to  
8 the variability of crew wages and train miles with  
9 the volume of traffic tendered, and we found that they  
10 were 100 per cent variable. It may not be so on a day  
11 to day basis, but if you are making rates for a little  
12 period of time you have to look to the long-term  
13 variability or you will be handling it below out-of-  
14 pocket costs.

15  
16 Q. Dr. Edwards, I want to read you two or  
17 three more lines from this article of Mr. Weisman:

18 "This highly condensed summary of the  
19 DT&I method necessarily omits some potentially  
20 complicating factors. Among such factors,  
21 Mr. Weisman lists the problem of incremental  
22 costing; the fact that engine hours and train  
23 miles are not completely variable, because  
24 some trains have to be operated regardless of  
25 traffic, and passenger service, where it is  
26 provided."

27 You told me a moment ago that the Canadian  
28 Pacific study treated engine wages, train miles and  
29 engine hours as completely variable with traffic. Mr.  
30 Weisman says there is an element of fixed cost in that.







1 A. Well, he is assuming it for the short  
2 term, but I don't believe that is apropos. In the  
3 case of these railroads I suggested, in connection with  
4 others, that we might make a test of the grain train  
5 miles charged to grain, lift out all these trains  
6 charged to grain and costed to grain, and that repre-  
7 sented, of course, over a period of years, a large  
8 fleet of train operations on the main line. Those  
9 trains, as it were, were lifted out of the entire  
10 fleet of operations of both roads, and that left the  
11 year 1958 a certain frequency of train operations  
12 throughout the entire lines of these carriers.

13 Then, those remaining train operations running  
14 in frequency varying by distribution of two, three and  
15 possibly four trains a day remained, and those trains  
16 were then submitted to the traffic officers and operating  
17 officers of the railroads to see if these roads could  
18 maintain their traffic services and operating services  
19 that were essential to these carriers if we didn't have  
20 the trains we considered to be variable. Their  
21 judgment was that that was the case, that the trains  
22 left were quite adequate to the handling of the non-  
23 grain C.P.R. traffic.

24 Then, in connection with the C.P.R., a test  
25 was made -- I am talking here first about the through  
26 trains -- then the question arose as to a matter of the  
27 gathering trains being variable. The gathering train  
28 services on these roads may reach a peak of four times  
29 a week. I don't know whether there are any five times  
30





1 a week -- three times a week and twice a week and  
2 once a week or on call; occasionally, every other  
3 week, or something of that sort. The question then  
4 arose, are these trains being charged to grain variable?  
5 A test was made -- a cross-sectional test -- as to the  
6 frequency of those train operations in relation to the  
7 density of the traffic handled on each of these branches  
8 that required four trains, three trains or one train,  
9 and so on, and it was found that the gross ton miles  
10 per train mile and the weight of the train and the  
11 crew wages on these trains per gross ton mile remained  
12 relatively constant over all the ranges of service --  
13 a situation that could only exist if the operation  
14 of the trains was very closely related to the volume of  
15 the traffic to be handled.

16 Now, you speak about the question of varia-  
17 bility: it was not merely an assumption. It was based  
18 on those facts, and on all the costing I have done  
19 where we haven't used a flat 80 per cent across the  
20 board as a short cut, we have treated the train crew  
21 wages and fuel and locomotive miles as 100 per cent  
22 variable.

23 Q. Quite apart from everything you said,  
24 which I suppose you are quite sincere in advancing  
25 here as a result of your experience, I am simply  
26 putting it to you that this gentleman, who is described  
27 as a cost accountant for the Detroit, Toledo and  
28 Ironton Railway, is of the view that engine hours and  
29 train miles are not completely variable?  
30







1 A. He is dealing with a very short-term  
2 period. We are dealing with a very long-term period.

3 Q. I want to take you to something else,  
4 and would you be good enough to turn to your copy of  
5 Statement 4-54, Washington, November, 1954 -- ICC.  
6 Would you go to page 110 and 111. I would like to put  
7 on the record the whole of this particular footnote  
8 and I want to discuss part of it with you.

9 MR. SINCLAIR: Is that footnote No. 48?

10 MR. FRAWLEY: No; footnote No. 51 on page  
11 111.

12 Q. I will read it, Dr. Edwards: it is the  
13 second paragraph I want to discuss with you, but I  
14 think I should read the whole footnote 51 so that the  
15 Commission and its advisers will have the whole footnote  
16 in its proper place in the transcript:

17 "Schedule H of Rail Form A provides for  
18 the assignment or apportionment of the return  
19 on value between freight and passenger service  
20 with a further breakdown of the freight portion  
21 between the running, switching, and station ser-  
22 vices. Such breakdown is made by separating  
23 the value of the rail plant into its various  
24 parts (i.e., track structure, land, station  
25 buildings, locomotives, freight-train cars,  
26 etc.) and apportioning each according to the  
27 use made of it in the performance of the various  
28 services. Such procedure is in contrast to  
29 that previously followed in Form A (Docket 28300)





1 which based the separations largely on operating  
2 expense prorates. Although both methods yield  
3 approximately the same overall results, the  
4 present procedure, which makes as many direct  
5 assignments as possible, coupled with the use of  
6 factors which reflect the relative use of the  
7 plant and equipment in each service, is believed  
8 to be the more logical. All valuation figures  
9 are obtained from valuation records supplied  
10 the Bureau by the carriers and include a dis-  
11 tribution of general expenditures, road and  
12 equipment, Accts. 71-77. The portion of the  
13 road property accounts (excluding land) dis-  
14 tributable to station and office buildings,  
15 water and fuel stations, shops and enginehouses,  
16 grain elevators, storage warehouses, wharves  
17 and docks and coal wharves, respectively, was  
18 based on the percentage which the reproduction  
19 cost new of such properties bears to the repro-  
20 duction cost new of the total road valuation  
21 excluding land.

22 "The matter of the rates of return is  
23 left open in the formula, the following explana-  
24 tory statement being made ( see unit cost sheet  
25 1,2/): 'the rate of return (i.e., allowance fo  
26 cost of capital) is presumed to be that which  
27 is necessary to attract capital to the rail  
28 industry. In a showing of the out-of-pocket  
29 cost, interest centers on the rate of return  
30





1 necessary to attract capital for such expansion  
2 as is necessary to handle added increments of  
3 traffic or, conversely, on the capital charges  
4 which, over the long-run period, could be eliminated  
5 if portions of the rail plant were withdrawn from  
6 service as a result of incremental decreases in  
7 the traffic handled. If the rate of return  
8 allowed the carrier is after payment of Federal  
9 corporate income taxes, include such income taxes  
10 as an element of cost in the study. Conversely,  
11 if the rate of return is before payment of  
12 Federal corporate income taxes, exclude such  
13 taxes from the study. The overall costs  
14 taken into the study should be approximately the  
15 same in either case, as the return to the carrier  
16 required under the second procedure would pre-  
17 sumably have to be increased by the amount of  
18 the Federal corporate income taxes.<sup>1</sup>

19 "The allowance for return is kept distinct  
20 from the operating expenses and is shown separately  
21 for road and for equipment."  
22

23 That is the full text of footnote No. 51.  
24 I have put that into the record at that place, and you,  
25 having it before you, I would like to discuss that  
26 with you.

27 (Page 12873 follows)  
28  
29  
30







1  
2  
3 As I understand it the costing done as  
4 the result of Rail Form A is to take a rate of  
5 return and show it as the allowance for the cost  
6 of capital. That is what the footnote says.

7 A. That is right.

8 Q. And I understand that in some  
9 instances the rate of return, after it has been  
10 taken somewhat arbitrarily, is adjusted to reflect  
11 what the railway in question earns?

12 Is there any question about that? I will  
13 read you the paragraph from page 25 of the burden  
14 study, statement No. 6-68. Have you got that  
15 statement 6-58, Dr. Edwards?

16 MR. SINCLAIR: I am quite sure, Mr.  
17 Chairman, and members of the Commission, that this  
18 witness can deal with this, but I am just wondering  
19 why we are looking at burden studies when there  
20 isn't a question, so far as I am concerned, and  
21 I haven't heard of a question being in issue as  
22 to burden. And on the question of making burden  
23 studies, undoubtedly what the railway has earned  
24 in the period is the proper figures, because the  
25 burdens are distributed over the various types of  
26 traffic carried to make that return.

27 But we are not here - at least, we have  
28 never done so, anyhow - looked upon this as a  
29 factor when you are looking into developing the  
30 cost of moving your traffic. If we are going to  
take one that is one thing. If we are going to  
take another that is a different matter.





1  
2  
3 THE CHAIRMAN: That is hardly likely?

4 MR. SINCLAIR: Not at all.

5 MR. FRAWLEY: My friend having advanced  
6 that argument, would you look now at statement  
7 No.6-58, and if you will look at page 23 you  
8 will find, at the top of the page, that the  
9 discussion is entitled "Explanation of the cost  
10 procedure".

11 A. I don't have that statement, but  
12 I have the subsequent years. Some of these  
13 explanations are parallel, I am sure. I have  
14 an explanation of cost procedures.

15 Q. Then, if you will, perhaps, follow  
16 it through you might see if you have the same one  
17 as I have.

18 A. I have August, 1959.

19 Q. This is November, 1958; and I am  
20 going to read from page...

21 MR. SINCLAIR: It is a burden study?

22 MR. FRAWLEY: No. 6-58. It is  
23 described as "Distribution of the Rail Revenue  
24 Contribution by Commodity Groups - 1956.  
25 Prepared by the Cost Finding Section."

26 Q. On page 25 I am going to read a  
27 paragraph which starts:

28 "The constant portion of the expenses  
29 for each commodity class was  
30 computed by multiplying the tons and  
short-line ton-miles...."

And then there is a footnote saying "The short-line







1  
2  
3 ton-miles were increased for an allowance for  
4 circuitry of 13 per cent." Then, going on:

5 "...from the waybill statement by the  
6 respective unit costs. The constant  
7 costs as taken from Table 4 of Statement  
8 No. 2-58 were adjusted as used in this  
9 study. The constant portion of the  
10 return at 4 per cent on the road property  
11 was adjusted to correct such rate of  
12 return to the actual rate of return earned  
13 in 1956 by the railroads. The products  
14 thus obtained, by commodity classes,  
15 were then added to the out-of-pocket  
16 costs to obtain the fully distributed  
17 costs for each territorial movement. The  
18 sum of all the territorial movements  
19 produced the fully distributed costs for  
20 the United States."

21 That is the accepted cost procedure used  
22 by the ICC.

23 A. That isn't the cost procedure; that  
24 is the method by which there was an accounting  
25 for the contributions to burden, and the rate of  
26 return earned was substituted for any other value;  
27 so that the total constant costs would be in harmony  
28 with the total revenues.

29 You will note that within a margin of  
30 one per cent in the concluding table - Table 7,  
Item 960 - well, that is reconciled; so that if  
the rate of return was changing we were accounting





1  
2 for the revenues they wanted to earn - whatever  
3 that was - at a given rate of return, and, to  
4 balance, the rate of return had to be brought in  
5 relationship to the revenue level. So that  
6 all the revenues and all the costs were the costs  
7 adjusted to the earning levels - were in harmony;  
8 they should have equalized to the dollar. And  
9 having that reconciliation it is a distribution  
10 otherwise we would have not, in using relativity  
11 of contribution around a common contributing  
12 ability of the various classes of traffic - we  
13 would have been away off dead centre.

14 Q. But you are not telling me, when  
15 I find on page 23 a sub title "Explanation of the  
16 cost procedure" and without any interposition  
17 of any other sub-title between that and the  
18 paragraph I read on page 25, that it is not an  
19 explanation of the cost procedure? I just don't  
20 understand what you mean. What is this  
21 explanation of the cost procedure?

22 A. This is applying cost for the  
23 purpose of reconciling costs with revenues, and  
24 if there is no rate allowed for the contribution  
25 then we would use their rates.

26 Q. Then, how about what they are  
27 saying on page 111, explanatory Note No. 51:

28 "The rate of return is left open in  
29 the formula..."

30 and he is talking about Rail Form A, isn't he?

A. That is right.







1  
2  
3 Q. "...the following explanatory  
4 statement being made - see unit cost sheet 1..."  
5 Then, the footnote: "The rate of return (i.e.  
6 allowance for cost of capital) is presumed to be  
7 that which is necessary to attract capital to  
8 the rail industry..." and so on. You tell me  
9 when we talk about taking the constant portion  
10 of the rate at 4 per cent and adjusting that  
11 downwards or upwards to the actual rate of  
12 return allowed in 1956 for the railroads - you  
13 say that they are not talking about the same  
14 thing.

15 A. Yes, they are not talking about  
16 the same thing. This is a burden study  
17 (indicating) and this is a costing procedure.  
18 The costing section has never prescribed a rate  
19 of return, and that is left open.

20 Q. But "the rate of return" and  
21 "the allowance for cost of capital" are synonymous  
22 according to the footnote in this statement 4-44?

23 MR. SINCLAIR: Just left open.

24 MR. FRAWLEY: Rail cost-finding procedures are  
25 left open so that they can be adjusted upwards  
26 or downwards as the earning experience of the  
27 company requires?

28 A. No; that would mean if a carrier  
29 had no rate, therefore, from then on the cost  
30 of capital would be zero.

One was a burden study and the other  
was costing for the rate of return; and the  
cost of capital was left open for the individual







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1  
2  
3 cost demand to determine and apply.

4 MR. FRAWLEY: Well, I will ask you a  
5 few questions about it tomorrow morning.

6 THE CHAIRMAN: We will adjourn until 10:00  
7 o'clock tomorrow morning.

8 ---Adjournment.  
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